J. Edgar Bouchard

PERMANENT DISTRIBUTION OF NATIONAL PRODUCTION

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FOURTH CONGRESS

SECOND SESSION

ON

H. R. 9216

By Mr. GOLDSBOROUGH

A BILL LOOKING TO THE PERMANENT DISTRIBUTION OF THE ENTIRE POSSIBLE PRODUCTION OF WANTED GOODS AND SERVICES

APRIL 27 AND 28, 1936

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PERMANENT DISTRIBUTION OF NATIONAL PRODUCTION

APRIL 27, 1936

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., in the committee room, House Office Building, Hon. T. Alan Goldsborough (acting chairman) presiding.

The committee had under consideration the bill (H. R. 9216), to restore to Congress its constitutional power to issue money and regulate the value thereof; to provide monetary income to the people of the United States at a fixed and equitable purchasing power of the dollar, ample at all times to enable the people to buy wanted goods and services at full capacity of the industries and commercial facilities of the United States; to abolish the practice of creating bank deposits by private groups upon fractional reserves, and for other purposes, which is as follows:

[H. R. 9216, 74th Cong., 1st sess.]

A BILL To restore to Congress its Constitutional power to issue money and regulate the value thereof; to provide monetary income to the people of the United States at a fixed and equitable purchasing power of the dollar, ample at all times to enable the people to buy wanted goods and services at full capacity of the industries and commercial facilities of the United States; to abolish the practice of creating bank deposits by private groups upon fractional reserves, and for other purposes

Whereas the Constitution of the United States in article I, section 8, clause 5, provides that Congress shall have the power to coin money and regulate the value thereof and of foreign coins; and

Whereas the present practice of issuing book credits by commercial banks, and transferring the title of said credits by check provides a supplementary means of payment subversive of the said Constitutional provision and establishes a separate, private, and independent money system; and

Whereas the permanent welfare of the people and the protection of the economic life of the Nation are dependent on the establishment of a monetary system wholly subject to the control of Congress that will promote the interests of agriculture and labor, of industry, trade, commerce, and finance for the economic well-being of all citizens by the maintenance of an adequate supply of money with a unit of fixed average purchasing power, which will avoid excessive expansion or disastrous contraction: Now, therefore

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—NATIONAL CREDIT

DECLARATION OF POLICY

SECTION 1. That it is hereby declared to be the policy of Congress to provide such issuances of certificates of national credit as shall be requisite so to increase the purchasing power of the consumers of the United States as to

make it conform to the capacity of the industries and people of the United States for the production and delivery of wanted goods and services, which capacity is declared to be the measure of national credit.

SEC. 2. In pursuance of such policy, the said certificates of national credit to be issued are for financing: (1) a discount on prices to consumers at retail, and (2) a national consumers' dividend.

SEC. 3. As used in this title—

(a) The term "national credit account" means the money valuation of the annual unused capacity of the industries and people of the United States to produce wanted goods and services.

(b) The term "credit certificates" means noninterest-bearing United States Treasury credit certificates issued against the national credit account, which are to circulate as money throughout the banking system only, as legal tender between all banks in settlement of interbank balances through clearing house associations.

(c) The term "retail discount rate" means a decimal figure to be published by the Secretary of the Treasury, as determined by the Federal Credit Commission as hereinafter provided, to be applied as a discount on the price of goods and services offered by retailers.

(d) The term "compensated price" means the retail price of goods and services after the application of the retail discount, the amount of which discount is reimbursed to the retailer as hereinafter provided.

(e) The term "retailer" means any seller of goods, including dwellings, and/or services to ultimate consumers for their individual and family use, and not for resale, provided that the seller shall have contracted with the Secretary of the Treasury to dispense the retail discount. The term "retailer" includes all service corporations insofar as they supply services to the public at retail for personal and family use.

(f) The term "services" means passenger transportation, distribution to homes of gas and electricity for light, heat, power, and telephone transmission, rentals of homes, services of amusement and educational agencies, medical and hospital treatment, and such other services to ultimate consumers as are rendered under code agreements with the Agricultural Adjustment and National Recovery Administrations, or other agency or agencies authorized by law.

DETERMINATION OF RETAIL DISCOUNT

SEC. 4. Beginning ninety days after the passage of this Act, the retail discount rate for each month shall be determined by the Federal Credit Commission and proclaimed by the Secretary of the Treasury on the first day of each month. Upon the passage of this Act and until the retail discount rate is determined and proclaimed as above provided, the retail discount rate shall be 25 per centum.

Thereafter the retail discount rate shall be that percentage which unused productive capacity bears to total productive capacity. In determining such percentage, productive capacity shall be ascertained by estimating the total capacity of the industries and people of the United States for the production of wanted goods and services for the next preceding three months' period for which figures shall be available; to this shall be added an estimate of imports for the next preceding three months' period for which figures shall be available.

Unused productive capacity shall be reckoned as the difference between total consumption and productive capacity. Consumption shall be ascertained by estimating actual domestic consumption of goods and services for the next preceding three months' period for which figures shall be available, plus an estimate of exports for the next preceding three months' period for which figures shall be available, plus a fixed percentage for capital depreciation, to be determined according to estimates of the Federal Credit Commission. The level of values used in ascertaining consumption and productive capacity shall be the same, and as far as possible shall conform to the average of prices recorded by the Federal Bureau of Labor Statistics in constructing its index of wholesale prices.

No retail discount rate shall be determined or proclaimed unless productive capacity, ascertained as above prescribed, shall exceed consumption ascertained as above prescribed by at least 20 per centum.

The retail discount rate proclaimed by the Secretary of the Treasury shall be the rate determined by the Federal Credit Commission: *Provided*, That the rate proclaimed shall not exceed the next preceding rate by a figure of more than 5 per centum.

It shall be unlawful for any member or employee of the Federal Credit Commission to disclose the retail discount rate or any information received or employed in connection with the determination of the retail discount rate before said rate shall have been proclaimed by the Secretary of the Treasury. After such proclamation the data used in the determination of the retail discount rate shall be made a matter of public record.

Application of Retail Discount Rate

Sec. 5. On and after the passage of this Act, the retail discount rate shall be applicable to purchases of goods and services from retailers as defined in this Act, made by consumers who are natural persons: *Provided*, That said purchases are for person use of the consumer or his family and not for resale, trade, or manufacture.

The retail discount shall be paid in the manner prescribed by the regulations of the Secretary of the Treasury, and the disbursals of said retail discount in trade shall be evidenced by suitable vouchers, or forms prescribed by the Secretary of the Treasury.

As hereinafter provided, said vouchers shall be used in reimbursing the retailer for his disbursal of the retail discount by selling goods or services at the discount price. The intent of this Act is to provide a continuous settlement through the banks to the retailers for the disbursals of the retail discount as provided in this title.

Contracts and Regulations

Retailers, wholesalers, manufacturers, and prime producers are hereby authorized to make voluntary contracts with the Secretary of the Treasury under their respective codes, as authorized by law, or under the regulations of their respective trade and professional associations: (1) in the case of retailers, in order to qualify them to dispense the retail discount and reap the benefit thereof; and (2) in the case of wholesalers, manufacturers, and prime producers, in order to qualify them to dispense their goods and services to retailers, sharing with them the benefits of increased trade under said codes or regulations. Said contracts shall specify in each case that the contractor agrees to such regulations as to cost accounting, fair trade practices, and professional ethics as shall be prescribed by said trade and professional associations or other agency or agencies authorized by law. Said contracts with retailers shall provide in each instance, that the retailer agrees to deal only with wholesalers, manufacturers, prime producers, and purveyors of services, who have entered into contract, as aforesaid, with the Secretary of the Treasury.

The Secretary of the Treasury may suspend or abrogate any contract made as above prescribed, after due notice and opportunity for a hearing, for violation of the terms or conditions thereof.

Any person who falsifies or causes to be falsified any account relating to a contract with the Secretary of the Treasury made as above prescribed, shall be punished, upon conviction thereof, by a fine of not more than $10,000 or by imprisonment for not more than two years.

Settlement of Discount Allowances

Sec. 7. In order to compensate retailers for their disbursals of the retail discount, all banks in the United States, its Territories and possessions, engaged in interstate or foreign commerce, are hereby authorized and directed to accept all vouchers evidencing disbursal of the retail discount, as if they were legal tender, and to honor such vouchers as deposits in the amount of the disbursals evidenced thereby. Credits entered to depositors on account of retail discount vouchers shall be charged to the national credit account, and the banks, upon application to the Secretary of the Treasury or such agency as may be designated by him, shall be reimbursed for the demand deposits

allowed by them under this Act by the issuance to them of a like amount of Treasury credit certificates as hereinafter provided.

Any bank receiving retail discount vouchers as above prescribed shall be entitled to make a service charge to the depositor for handling said vouchers, at a rate to be fixed by the Federal Credit Commission; but in no event shall such service charge exceed one-half of 1 per centum of the amount of the retail discount disbursed.

Any person who makes a false entry on a retail discount voucher or who presents a false retail discount voucher to a bank for deposit or any retailer who manipulates falsely his sales totals in claiming settlement of compensated price shall be punished, upon conviction thereof, by a fine of not more than $10,000, or by imprisonment for not more than two years, or both, and in addition, if he be a retailer, he shall suffer abrogation of his contract with the Secretary of the Treasury and shall be prohibited for a period of two years from the date of his conviction from engaging in business with any retailer, wholesaler, manufacturer, or prime producer who shall be under contract with the Secretary of the Treasury.

National Consumers' Dividend

Sec. 8. A national per capita consumers' dividend amounting to $5 monthly shall be paid on the first day of every month during one year after the passage of this Act, to every citizen of the United States and to every bona fide resident of the United States, its Territories, and possessions. The payment of said dividend shall be administered under the direction of the Secretary of the Treasury, and shall be made pursuant to regulations prescribed by him. All payments of the national consumers' dividend and all expenditures in connection therewith shall be met by the issue of Treasury credit certificates, as hereinafter provided. Such certificates shall be issued to banks or other agencies designated by the Secretary of the Treasury, and shall be accepted by them as a Treasury deposit against which checks in payment of the national consumers' dividend and all expenditures in connection therewith may be drawn.

It is the intent of Congress to determine the amount of the national consumers' dividend from year to year by making it approximate such percentage of the national credit account as may be available and not otherwise appropriated, as deemed advisable by the President of the United States, but said dividend shall in no case amount to less than 5 per centum of said account.

TITLE II—FEDERAL CREDIT COMMISSION

Organization of Commission

Section 201. To effectuate the purposes of this Act there is hereby created a Federal Credit Commission (referred to in this title as the "Commission"). The Commission shall be composed of seven Commissioners who shall be appointed by the President by and with the advice and consent of the Senate. No person shall be eligible for appointment as Commissioner unless he is a citizen of the United States, and in the judgment of the President qualified to develop expert knowledge of industrial, economic, and statistical problems and to perform efficiently the duties required by this Act. Not more than four of the Commissioners shall be members of the same political party. Terms of office of the Commissioners shall expire, as designated by the President, one at the end of each of the first seven years after the passage of this Act. The term of office of a successor shall expire seven years from the date of the expiration of the term for which his predecessor was appointed, except that any Commissioner appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of such term. Commissioners shall be eligible for reappointment and shall receive a retiring pension of $1,000 per year for each year of service, provided that no pension shall exceed $7,000 per year.

The President shall annually designate one of the commissioners to act as chairman of the Commission. Each commissioner shall receive a salary of $20,000 a year. No commissioner shall engage in any other business, vocation, or employment than that of serving as commissioner.

Duties of the Commissioner

Sec. 202. There is hereby created an account in the Treasury of the United States to be known as the National Credit Account. Upon the passage of this Act the Commission shall determine annually the value of the unused capacity of industries and people of the United States for the production of wanted goods and services, which amount shall be credited to the National Credit Account. Each year the amount in the National Credit Account which shall not have been drawn upon in that year shall be written off. The level of values used in determining the amount of the National Credit Account shall be the same as in the determination of the Retail Discount rate. The decisions of the Commission as to the National Credit Account shall be final. Said decisions shall be reported by the Commission to the Secretary of the Treasury, and said reports shall be used by him as the basis for the establishment and maintenance of the National Credit Account.

The Commission shall use all reasonable ways and means to determine the retail discount rate as accurately as possible strictly in accordance with the methods prescribed in section 4 of title I of this Act and without any extraneous influence or advice. The decisions of the Commission as to the retail discount rate shall be final.

The Commission shall have authority to employ and fix the compensation of such special experts, examiners, statisticians, clerks, and other employees as it may from time to time find necessary for the proper performance of its duties.

The Commission shall establish and maintain a statistical bureau to collect and coordinate the data necessary for carrying out the provisions of this Act and shall be guided in its decisions by the facts disclosed. All statistical departments of the Federal Government shall furnish such aid and information as may be required by the Commission.

The Commission shall have authority to call for data and statistics from all economic organizations, trade associations, and private business which may be required in the judgment of the Commission for carrying out the purposes of this Act, and any refusal to furnish such data or information shall be punishable upon conviction thereof, by a fine of not more than $1,000, or imprisonment for not more than one year, or both.

It shall be the duty of the Commission to fix the service charge for the handling of retail discount vouchers by the banks, as prescribed in this Act.

The salaries of the Commissioners and all expenses of the Commission shall be paid by the issue of Treasury credit certificates in the same manner as provided in this Act, in the case of the national consumers' dividend.

Interference with Functions of the Commission

Sec. 203. It shall be unlawful for any person—

(1) to prevent or attempt to prevent, by force, intimidation, threat, promise, or in any other manner, any member or employee of the Commission from exercising the functions imposed upon the Commission;

(2) to induce, or attempt to induce, by like means any such member or employee to make any decisions or order, or to take any action with respect to any matter within the authority of the commission;

(3) to induce, or attempt to induce, by like means any such member or employee to disclose any information whatever except through the channels provided in this Act.

TITLE III—NATIONAL CREDIT CERTIFICATES AND FRACTIONAL RESERVE

Section 301. The Secretary of the Treasury is hereby authorized and directed to issue through the Federal Reserve System or any other agency designated by him, Treasury Credit Certificates in such denominations as may be deemed advisable by him, and in such amounts and at such times as may be required in order to effectuate the purposes of this Act. Said credit certificates shall be charged against the national credit account, and shall be issued without regard to the provisions of any law governing the expenditure of public funds. Said credit certificates shall be issued to the banks or other

agencies herein provided (1) as authorization to the banks for the credits established by them to the accounts of their customers pursuant to the requirements of this title, and (2) as authorization to the banks, or other agencies, for the establishment of Treasury credits to be used for the purposes specified in this Act.

SEC. 302. The said national credit certificates shall be issued by the Secretary of the Treasury in such amounts as shall be called for by the banks in the course of the writing up of the deposits of customers who are retailers within the meaning of this Act. In no case shall the face value of the national credit certificates be issued in excess of the total write-up of the said retailers' accounts.

SEC. 303. The banks shall furnish to the National Credit Commission, under oath, at the time of applying for said certificates a statement of the amounts credited under this Act to the said retailers.

Every bank having depositors whose business is that of dispensing goods at retail as provided in this Act, is hereby directed to open a National Credit Certificate Account and to charge this account with the face value of all certificates furnished to it by the United States Treasury through such agencies as the Secretary of the Treasury may designate, and to credit the same to its customers who dispense the said discount at retail in accordance with the retail discount vouchers deposited by them.

The total amount of the new deposits arising from the discounts shall be charged daily to the National Credit Certificate Account. In turn, this account shall be credited and the General Ledger Deposits Account shall be charged with the equivalent amounts, so that the National Credit Certificate Account shall be at all times approximately in balance.

Settlements may be made regularly with the Treasury at any convenient periods, or as may be designated by the National Credit Commission. Said Commission may authorize the District Federal Reserve Banks to make settlements as its representatives.

Retailers' deposit accounts written up by the method herein provided shall be treated by all banks as part of their circulating deposits, just as if the write-up had occurred through the discounting of the customer's own note, and the checks drawn against them shall circulate in the usual manner.

CLEARING HOUSE OPERATIONS

SEC. 304. All clearing house associations and all correspondents authorized to make interbank clearances are hereby authorized and instructed to accept national credit certificates from any bank in settlement of interbank balances, in the ratio that the amount of deposits they gave rise to bears to the total deposits of the bank tendering the certificates. Any bank receiving said national credit certificates in settlement of a favorable balance from its clearing house is hereby authorized and instructed to credit its National Credit Certificate Account with the amount so received and to charge its General Ledger Deposits Account with the same. In like manner, the bank so disposing of said certificates shall credit its General Ledger Deposits Account and charge its National Credit Certificate Account with the face value of the certificates so disposed of. Both the paying and receiving banks shall then distribute the credits or debits to the customers entitled to them in the usual manner and shall charge or credit the National Credit Certificate Account with the corresponding total.

DECLARATION OF POLICY

SEC. 305. It is the intent of this Act that the National Credit Account in all banks shall be maintained in approximate balance at all times.

It is the intent of this Act to control the volume of the means of payment for goods and services in harmony with the ability of the whole Nation to produce and consume them on a rising standard of living, so that excess expansion of money and a consequent undue advance in the price level shall not occur, and that the present system of issuing money through private initiative for profit, resulting in recurrent disastrous inflations and deflations, shall cease.

To such end the privilege of the commercial banking system to make loans and issue deposits against them on the basis of fractional reserves is hereby rescinded. The right of the banks to loan the means of payment shall be limited to the amount of primary deposits in their possession and their own resources.

Such loans shall be for account of the depositors, and shall be charged against the balances of said depositors and credited to the borrowers. The banks shall act solely as agents in the loaning of customers' deposits, and shall receive therefor a commission for collection of interest, the amount of which shall be fixed by the National Credit Commission, but not in excess of ten per centum of interest return upon such loans: *Provided*, That upon the authority of the National Credit Commission the banks may, at their discretion, allow interest, not exceeding one per centum per annum, to time deposit customers whose funds they have been unable to loan or who desire to retain their deposits unemployed. The responsibility of the banks to their customers under this provision shall be the same as now obtains in the existing system of "loans for account of others."

The privilege of the banks to rediscount commercial paper and borrow upon Government securities at the Federal Reserve Banks shall be limited to collateral actually owned by them. Collateral security conveyed to them as agents for depositors for whom they have negotiated loans, shall be held in trust for account of such depositors during the life of the loan.

Depositors who have authorized the loaning of their deposits shall give sufficient notice to the bank of their desire to withdraw such funds. The banks may transfer any loan from one depositor to another, at the same time transferring the collateral in trust, rather than having recourse to calling in the loan and reissuing it.

A bank shall be entitled to charge a commission to the borrower for negotiating loans not exceeding 1 per centum of the face value of the loan.

Bank Deposits Payable in Legal Tender Currency

Sec. 306. It is hereby enacted that the Comptroller of the Currency shall at all times be prepared to meet the requirements of the banks for such currency, legal tender for all debts public and private, as may be called for withdrawal from them by their customers.

Transfer of collateral to offset the drafts of currency so demanded shall not be required of the banks. The privilege of creating deposits upon a fractional basis of reserves having been withdrawn from the banks in the interest of sound national money, it becomes the responsibility of the National Government to see that the primary bank deposits already brought into existence under the existing system can be validated.

The banks shall return all currency that has been withdrawn for validation of deposits to the Comptroller when redeposited, excepting only such working reserves of normally circulating currency as may be required. Nothing in this Act shall be interpreted as releasing the banks from obligations they have already incurred to the United States Treasury or Federal Reserve Banks for currency now in their possession.

The banks shall furnish a strict accounting of the currency called for by their customers in excess of normal requirements of business, such as might occur in time of financial stress.

The banks shall act simply as agents of the Comptroller of the Currency in validating bank deposit money with legal tender currency and no charge therefor shall be made upon either side for such service.

Sec. 307. Improper use of the Certificates herein provided to be issued shall be a misdemeanor and shall be punished by a fine of not exceeding $10,000 and imprisonment for not exceeding five years.

TITLE IV—CREDIT CERTIFICATE RETIREMENT FUND

Declaration of Policy

Section 401. In order to establish a system of circulating money which shall at all times conform to the capacity of the industries and people of the United States for the production of wanted goods and services, it is hereby declared to be the policy of Congress to prevent the undue expansion of money as well as to eliminate the contraction of money in times of slackness of trade. It is the intent of Congress, whenever deemed necessary by the Federal Reserve Board and its Open Market Committee, that the present controls over the supply of money through open market operations and the discount rate shall be employed as heretofore to maintain a balanced credit structure.

Establishment of Credit Certificate Retirement Fund

Sec. 402. In order to effectuate the purposes of this title, a Credit Certificate Retirement Fund shall be established for the purpose of retiring from time to time, as hereinafter provided, the Treasury credit certificates herein authorized. For said fund there shall be set aside one-fourth of the national revenues in each fiscal year over and above the amount required to balance the normal budget estimates for that year.

Retirement of Credit Certificates

Sec. 403. The Secretary of the Treasury shall use said Credit Certificate Retirement Fund, or such portion thereof as shall seem to him advisable, for the retirement of said Treasury credit certificates whenever in his judgment, acting upon the records of the Federal Credit Commission, an unduly expanded monetary condition exists or is impending.

If, in the opinion of the President of the United States, the operation of the Retirement Fund as above provided is insufficient in any instance to check an unduly expanded monetary condition, or an inflationary rise of the general price level, the President is authorized, in his discretion, to establish a negative retail discount rate not to exceed 20 per centum upon all goods and services, except foodstuffs, clothing, household fuels, dwellings, and rentals of dwellings. Said negative retail discount rate shall be subject to the same provisions of law as the retail discount rate.

The negative retail discount rate, whenever imposed, shall be added by the retailer to the retail price of goods and services to consumers, and shall be reported by the retailer to his bank, upon forms to be prescribed by the Secretary of the Treasury, and paid to the bank. Payments of said negative retail discount shall be credited by the banks, as received by them, to the national credit account, and the proceeds thereof shall be applied to the retirement of Treasury credit certificates in like amount.

It shall be the duty of the Federal Credit Commission to collect and maintain all statistics and information which shall be required by the Secretary of the Treasury or the President for the purposes of this Title.

TITLE V—GENERAL PROVISIONS

Section 501. The National Deposit Insurance Act is hereby repealed and the Federal Deposit Insurance Corporation is ordered to be wound up.

Sec. 502. Any person who violates any of the provisions of this Act shall be punished, upon conviction thereof, by a fine of not more than $1,000, or imprisonment for one year, or both, in cases where no other punishment is provided in this Act.

Sec. 503. In addition to the specific powers conferred by this Act, the Secretary of the Treasury is authorized to make such rules and regulations as he may deem necessary to carry out the provisions of this Act.

Sec. 504. The necessary moneys for carrying out the provisions of this Act are hereby appropriated, and this appropriation shall be deemed a permanent and indefinite appropriation.

Sec. 505. All laws and parts of laws inconsistent with the provisions of this Act are hereby repealed.

Sec. 506. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Short Title

Sec. 507. This Act may be cited as the "National Income and Credit Issue Act."

STATEMENT BY MR. GOLDSBOROUGH

Mr. Goldsborough. Gentlemen, the committee will come to order, please.

Gentlemen of the committee, we are going to sit, subject, of course, to veto by the members of the committee, on H. R. 9216, and we will have these hearings today and tomorrow. The hearing will last until 12 o'clock, and begin at half past 2 this afternoon; and tomorrow morning, at 10:30, until 12, and if it has not been concluded, we will go until 5 o'clock. Of course, as I said before, all of that is subject to veto by the majority of the members of the committee.

I want to take a few minutes to try to explain why this bill was introduced and why it is being considered.

We have a condition in this country of not being able to consume anything like 100 percent of our actual productive capacity, or anything like our potential productive capacity. There have been various attempts to correct that situation. One of them has been by installment selling. Another has been by socialized credit, but as far as I know, there has never been any attempt, except the attempt made in this particular bill, to attack the problem directly, and this bill attempts to attack the problem directly by granting a discount to the purchasers of all goods at retail, and requiring society to absorb that discount up to 100 percent of the actual and potential producing power of the country, which is now being wasted at the rate of from $50,000,000,000 to $100,000,000,000 a year.

Three winters ago, I think, in a gathering at the home of Senator Cutting, Maj. Clifford H. Douglass made a very interesting statement, an exceedingly interesting statement attacking this problem, and was asked to suggest a concrete remedy. This he did not do; and as far as I know, a concrete remedy has never been suggested before the introduction of this bill.

Now, personally, I do not want to go into this question on the assumption that I feel that nothing has been done to correct the defects, as I understand them, in our monetary system. In the last few years, there has been in my opinion, an extraordinary and almost unbelievable amount done. The members of this committee know this, and no statement of the tremendous advance in monetary legislation during the last few years is as clearly and concisely stated as the one that I find in the April number of a Canadian magazine called The Instructor, and made in an article written by Hon. Robert L. Owen, former United States Senator from Oklahoma, and if there is no objection from the committee, I will state his resumé of what has been done on behalf of the monetary system in the interest of the people as a whole:

It has made all money legal tender.

It has abolished the national bank note.

It has removed gold from domestic circulation.

It has stopped the minting of gold and put it in bars in the vaults to be used exclusively as a commodity or in the payment of international balances upon permit of the Secretary of the Treasury.

It has outlawed all future dollar contracts, payable in gold by weights.

It has made all existing dollar contracts payable by gold in weight, subject to payment by lawful money or legal tender.

It has established a guarantee of bank deposits up to $5,000, etc.

It has authorized the expansion of the currency through $1 silver certificates, and actually increased such currency by half a billion dollars.

It has authorized gold to be sold for commodity uses and for payment of foreign balances, and gold has been made salable at a price of $55 an ounce for such uses by the Secretary of the Treasury.

It has authorized the purchase of silver until the silver held by the United States shall equal one-fourth of the gold so held.

It has passed laws to regulate the security market and provide safeguards to prevent runaway speculation in securities by inflated credit.

It has removed the auxiliary corporations through which banks speculated in securities.

It has authorized the expansion of credit through the sale of Government bonds to the banks in providing public works and public relief to people in distress.

It has passed a new Banking Act of 1935, establishing the Federal Reserve Board of Governors of seven members, giving them the control over the expansion and contraction of credit and currency.

It has given the Federal Reserve Board power to veto the election of president of any Federal Reserve bank.

It has given the Board the right to raise the reserves of member banks 100 percent.

It has given such Board the power, through an open-market committee, to require the Federal Reserve banks to buy and sell bonds as a means of expanding and contracting credit.

It has expanded the power of member banks to lend money on real estate.

It has expanded the power of the Reserve banks to discount bankable assets of member banks.

It has used the public credit on a colossal scale to relieve the most acute effects of the existing depression.

To my mind this is a splendid statement, and it reflects very great credit on those who have been instrumental in the passage of the legislation providing for the various changes mentioned in this résumé; and so in this hearing on this bill, H. R. 9216, introduced by me, there is no intended reflection on what the American Congress has been able to do in the last few years to alleviate the distress of the people due to monetary causes.

We have with us this morning Mr. Edward F. Harvey. Mr. Harvey, we will be pleased if you will make your statement. Mr. Harvey, give the stenographer your full name and what business you are engaged in, if you please.

STATEMENT OF EDWARD F. HARVEY, PHILADELPHIA, PA.

Mr. Harvey. Mr. Chairman and gentlemen of the committee, my name is Edward F. Harvey. I live in Winant Valley, Pa., near Philadelphia. I call myself a Republican.

My business has been that of a corporation executive most of my life. I started in it very young, and I also have become deeply interested in banking, and served on the board of a bank for some 18 years, and it is from that standpoint I approach this particular problem.

Mr. Goldsborough. Would you be more comfortable if you sat down, Mr. Harvey?

Mr. Harvey. I thank you. I have made a brief on the subject of the bill, which I would like very much to present for the record, if that is suitable.

Mr. Goldsborough. I have read the brief and I think it very excellent, and if you want to use your brief in your statement, you

may do so, or if you want to supplement the brief by a statement, that is also satisfactory.

Mr. Harvey. I would prefer, I think, to supplement it. To begin with, the brief is very long and it would take an hour for me to read it, and I think I can cover my ground more rapidly and save the time of the committee by not attempting to read the brief.

Mr. Goldsborough. If there is no objection, the brief will be incorporated in the record, and then you may make such statement to the committee as you think relevant to the issues. When you get through, and not until then, the committee will ask you questions, if that is agreeable to the committee, because there are several witnesses to be heard and we will not be anything like able to get through unless the asking of questions is deferred until the statements are made.

If there is no objection, the brief may be incorporated in the record and made a part of the record.

(The brief referred to was not submitted.)

Mr. Goldsborough. You may proceed, sir, in your own way.

Mr. Harvey. Mr. Chairman and gentlemen of the committee, as I said, I have approached this bill from the standpoint of an executive, and I feel that it meets the situation in a pragmatic way, in which, so far, it has not really been attacked. It is, as the chairman said, a question of the lack of effective purchasing power to equate the production capacity of the country, place industry on a profitable basis, and bring the effective purchasing power into line with the actual demand that exists. The present banking system has never been able to do that; it is dependent upon prices and demand, and the money that goes out is largely a question of the price level.

In addition to that, it goes into the production entirely, it is loaned to the producers or to the distributors, and in the process of passing it out into the hands of the public, where it becomes an effective purchasing power, I think statistics show there is no doubt at all that a good deal of it never gets into the hands of the consumer.

And I would like to say this: That it is quite impossible, whatever the orthodox economists may say to the contrary, to put out more money in the form of purchasing power than the cost of the goods. For instance, if an automobile costs $1,000 to manufacture, the greatest amount of money that could be possibly put out for the manufacture of that machine is $1,000. Now, when that money gets out, some of it—first, it would take that same $1,000 plus a profit which is added to the $1,000, to buy that machine. There is the profit there which is missing.

Now, there are several explanations of why that profit does not actually become purchasing power, but I do not think those explanations are entirely clear; but if we confine ourselves to the $1,000 which we have now, which our machine has cost the manufacturer and which the manufacturer has paid out in dividends, salaries, costs of materials, and that sort of thing, there is still a profit to be made, for which there is not money represented in the amount that was paid out for that machine.

Then, another thing is, that those people who get that $1,000 to spend do not spend it all. We know, from the records, that at

least 5 percent, on an average, of the receipt of income goes into savings. The economists, again, state that that 5 percent does get back into the purchasing power, because it goes into new construction and new production capacity, but of course that is a multiple capacity. So you always have that lack, which, if you take your 5 percent savings and add it to your capacity, you have a greater capacity and you have to have more money to spend to purchase that capacity. So that it is a vicious cycle, and there is a constantly mounting shortage of purchasing power.

Now, that has been the deceptive situation during the last 30 or 40 years, because that shortage of purchasing power has been made up by bank loans, by credits of various sorts, which have varied the real disproportion between spending power and cost of production and the cost of the profit, which, in 1924, 1925, 1926, 1927, 1928, and 1929, was not so visible, but it was visible in another way. It was visible through the fact that prices, that the price levels of commodities, did not increase for 5 years, in which a vast amount of money was being put out, and, at the same time, the production capacity was increasing, showing that there was a lack of buying power to use the demand up to the productive capacity that was being increased.

As soon as that money which had been issued largely for speculative purposes began to be recalled, because it got to be top-heavy, the growth of wealth on the current dollars was so great that it was impossible for an industry, with the income that existed, to meet the profits that were necessary on that enormous capitalization, and people naturally lost their nerve and began to sell their securities.

I think, also, that the Europeans sent a great deal of money over here and that had helped our rising prices, and they are pretty keen investors, and when they thought our security price level had gotten high enough, and when the buying over here was ceasing, because they had gotten pretty well all of the goods they needed for rehabilitation, they began to withdraw their money, and that started a little weakness; and of course, as soon as we start a little weakness in the price of securities, we get the drop, and as soon as you get a drop you call your loans, and as soon as you call your loans you get another drop. That is a spiral which everybody is familiar with.

That is due to the fact that money is issued to the public on loans, which create deposits which are known as derivative deposits; they are circulated money, which is callable today, and it is based on the price level. The price level falls, and the bankers, in order to protect themselves, must call those loans. The consequence is that the volume of circulating money is reduced, and that causes further spirals downward. So that these derivative deposits are very uncertain, as we know.

There is another form of deposit, which is what I think is generally now alluded to as primary deposits. Those deposits are real bank money. They have no strings to them. They are the liabilities of the bank. I will not say they are real money, because we know, in 1933, they ceased to be real money, due to the fact that the price level had destroyed the solvency of the banks. Therefore, the money that is based upon price level is the most precarious finance.

That situation means that the exchange, which is based on the price level, is so precarious that, during the period from 1929 to 1933, almost one-half of the deposits of the country ceased to exist.

That is one of the things that this bill aims at correcting. It aims, as I understand it, to establish the volume of money in harmony with the volume of demand, not with the price level; and, in other words, it brings the effective demand and the actual demand close together. The actual demand is an extremely stable factor, because most people will spend just about what they need all of the time. Everybody needs a certain amount to live on, and their expenditures are a matter of habit; they do not curtail them, if they do not have to curtail them through some period of depression. So we can figure the natural demand as a very stable, economic factor.

I think we can also regard production as a comparatively stable factor, providing we establish means to keep plants operating.

So that we have here two factors, which, if money is so balanced, will make them even and a continuous cycle, on even levels, instead of the tremendous fluctuations that we are familiar with.

Now, in addition to that, there are some other reasons, but the main reason is that the present monetary system issues a monetary token or substitute for money in the form of loans and deposits, which are subject to recall, and which, when they are recalled, cause very much of a reduction of the buying power.

The shortcoming in these bank credits is, I might say, first, that they are based upon fractional reserves and fractional reserves will not establish a sound type of money. That is covered by the points I have just mentioned. So that the fractional reserve is a very upsetting factor in this system. Now, the bill aims at abolishing the fractional reserves, and establishing money which is real money, even though it be the checks, they will become real money; that is not a substitute money. The public regards their checks as real money, until it wakes up to find that something has happened and that the bank is not solvent. Under the bill, no bank could be insolvent, so far as its holding of public money in trust is concerned. Today, the banking system is on the horns of a dilemma; it must loan money on a fractional basis, in order to keep itself going, but it has a very serious liability in what I have referred to as the primary deposits.

These primary deposits are money that has been entrusted to the bankers, without any strings to it; that is to say, it is the pure liability of the bank, without any collateral against it.

Therefore, there are two forms of money: One is the primary deposit, which has no strength to it: and the other is the derivative deposit, which is so called because it is derived from loans, and bankers have not heretofore made a distinction between those two types of deposits that I think they are entitled to make, because the distinction is a very important factor in appraising the uncertainty of our banking system and our price level.

So that the bill aims to get away from a great source of monetary fluctuation, which is the fractional reserves, and that it does by guaranteeing, practically guaranteeing, all deposits, but it formally does it in a way that effectively limits the liability of the banks—the banks merely guarantee to the public that their money is good.

the banks acting as agents or trustees as between the Government's money and the public.

Now, that leads me to the mechanism, to which I have given a great deal of study. The bill refers to the mechanism for determining the amount of the actual national credit. I do not want to go into that, either. I want to keep as near to the practical as possible, so I would like to point out that the present volume of unused credit is represented by the reserves, the excess reserves in the banks. We might estimate that today at 30 billion dollars. That is what it is generally stated to be. As a matter of fact, if we had a very great rise in prices, it would be expanded probably to 50 billions or more.

In 1929, the banks issued about 40 billions and they could probably have issued 60 billions on the price levels that then existed, but there was not a demand for it, because the people did not have courage enough, and, as I said, our friends in Europe began to take their money away, and we all got scared.

So that the available credit of the Nation today, as shown by past experiences, and without relation to the problem of production but to the actual production that was realized in 1929, we will say, is 30 billion dollars. Now, at the present time that 30 billions may come into existence if the banks have a demand for it. If the banks can get a demand for it, they will be only too glad to issue it. They cannot issue it now because there is not a demand, and the reason there is not a demand is because there is not sufficient standard income available today to buy the goods that can be produced and which would warrant manufacturers to borrow the money.

I have talked to a number of different vice presidents of banks—I know quite a few—about getting money out, and they have said to me, time and time again, "We cannot increase the loans of this bank until we can get commercial credits, and we can't get commercial credit because we have here hundreds, in some cases, of depositors, of customers who have lines of credit arranged anywhere from $50,000 to $1,000,000, and they won't use that line. We have given it to them, and it has been established there for years, but we can't get them to use it."

Well, the reason that they cannot get their customers to use it is because their markets are gone. Now, this 30 billions of credit, as I say, is in a form now where it cannot be issued, and also, when it is issued, it is issued in a very haphazard way by something like 16,000 banks, none of whom have any idea of what volume of credit, what national volume of credit which influences the price levels, or influences the buying power, is going to be from day to day; and the consequence is that you have a very haphazard way of getting money out.

Now, the bill proposes that, instead of allowing any authorized bank to issue on the bank's reserves, that the credit, the potential credit should be segregated under a Government commission, which would have facilities for measuring that credit from day to day or week to week or month to month; and the amount that has gone out, the amount that is needed to keep business busy, and keep people supplied with their needs, and then it should be issued not to the producer but to the consumer. To issue money to the consumer will be a very different thing.

Also, there is a question whether it might not upset a good many of our traditional ideas about operating business, but it is a simple thing to approach the subject through the price level. The price level must be low. I think that the recent researches that have been made on that score are very definite. Also we know that such a thing as department store sales, reduction sales of all sorts, increase enormously the savings, it clears the shelve, and that is the principal thing they want, to clear the shelves, and when they clear the shelves that means new production.

Now, this bill proposes to clear the shelves by reducing prices, but not as an individual store will do it, but on a national scale.

Therefore, instead of issuing the credit to the consumers, it issues the credit to the retailer for allowing the discounts, which brings the whole system that is proposed in this Government credit into harmony with the banking system as it is today. Our banking system is an extremely fine organization; the personnel of it is probably as fine a group of citizens as there is in the country, probably anywhere, in spite of the fact that it has been abused for errors. My feeling is that the errors are largely due to the system and not so much to mismanagement.

However, by keeping out of the banking system as it is, and issuing this credit through a Government authority, the whole banking system will work in the same way as it always has. There is no disturbance to the banking system, as I can see it, at all, and all of the techniques are attained.

Now, the bill provides that the amount of the Government credit shall be arrived at under the calculations of the Federal Credits Commission. The 30 billions of credit, for instance, that I have referred to as stagnant credit, available on the banks' reserves, will be set up as 30 billions of credit which ought to be used and must be used in order to bring business back to what it was in 1929.

The Commission then withdraws from the banks the right to issue credit on fractional reserves, and leaves the banks the right to issue credit on account of actual deposits, which means that permanent money will be loaned, which, when the loan is called, will not be destroyed. I will not go into the way in which that may be done, but I think it is a very simple matter, and the authorized banks will very quickly get the habit of it. They did that in 1929 to some extent, but it will be under the control of the Federal Credit Commission instead of the blanket authority to issue credit. Specific authority to banks is provided, which will limit the amount of credit to the amount that is needed in order to equate production and credit. It is done by a new instrument of credit, it is created in national credit certificates, and the national credit certificates, as I say, take the place of the blanket, haphazard system of issuing fractional reserve credits on fractional reserves.

It is a specific authority to the banks to issue credit to retailers who have issued a discount on all goods to their customers. When a bank receives vouchers, as is provided in the bill, from their retailer customers, the amounts of those vouchers are written up in their accounts as bank credits, and the bank applies to the Treasury, or to the Federal Reserve bank, or through their corresponding banks, however it may be arranged, for specific authority to issue

that credit. That authority is given to them in specific amounts, according to the amounts they have put out in the form of these credit certificates. It then enters the credit certificates to the debit of their credit certificate account, and then credit their customers' accounts.

That puts the customer's account in credit for the amount of his discount, and gives him a deposit to carry on his business with. Those credits will pass back to the producer and will place the retailer in better cash position, as the money flows back, it places the distributor in a better cash position, and right back to the ultimate producer.

Mr. GOLDSBOROUGH. Mr. Harvey, just a minute. The reason these Members are leaving is because there is a roll call in the House. That is what those buzzes or rings were. I do not know whether they will feel, all of them, that it is worth while to come back before 12 o'clock, but they have in mind that the committee will meet again at 2:30. You will proceed, sir.

Mr. HARVEY. I will get through as rapidly as I can.

These credit certificates are issued, as I say, by the Government in specific amounts, and they do not constitute any liability to the banks from the Treasury; they are simply representing the warrant or authority. They parallel, I think, the general credit effect of a bill of lading, rather than any other credit instrument that I can think of. In other words, they represent credit for goods going into consumption. That is what a bill of lading does, when a producer draws a bill of lading attached on his customers for the goods sold. But it comes from the Government, and it is based on this credit that ought to be in use and which must be gotten out. So there is no liability there between the Government and the bank. The Government has not borrowed the money and it has not authorized the bank to create a debt to anybody; it has simply raised the level of what I call the derivative and the primary deposits of the Nation, which is increasing the volume of money, and under the bill that money is made the definite, specific, national currency, because it cannot be destroyed through calling loans and things of that kind.

These credit certificates, after they get into the hands of the bank, become deposits and the banks honor checks drawn on these deposits.

The clearing houses would have to do the same thing. The clearing houses would accept these credits and would pass them on in the settlement of the favorable balances to their other members. Then the other members would take it and just issue that exact amount of credit to their customers.

So they would be getting a practically smooth moving credit going through the whole banking system in that way, that is not subject to recall, if you get a falling of prices, if you have an earthquake, if it is reported that wheat has had a big drop in the West and a drop in the demand for wheat. You do not get a speculative drop in addition to the price and then get a calling of loans, which results in a further reduction of the buying power. All that is left undisturbed and it is not a disturbing factor.

So that it is a system by which the credit that is unused today and which is a prime necessity to industry and also to the population can be put into circulation, without disturbing any of our present banking system.

That covers, I think, the main or most of the main features of the bill. I will not touch upon the mechanism of the discount, because I have already taken up a good deal of the time of the committee, but I have here a statement in connection with the tendency of the present banking system and our industrial system to increase debts. Those increased debts, that increase of debts which is undoubtedly unavoidably brought about, is one of the most threatening things that we have to deal with. I think that to the increase of debt is due the experiences that we have had, to a greater extent than anything else, because they have the effect of destroying confidence, curtailing the trade of the Nation, because our trade is dependent upon mass production, which means lower prices. Mass production must produce at lower prices all of the time, in order to be successful. That is the principle on which it is built. I think everybody admits that. And I think that Henry Ford has shown the way—I can say Andrew Carnegie, first, and Henry Ford, second—have shown the way to rising prices, but it is not an uncommon thing for any private business to reduce prices for the time being and take a loss, in order to develop their business and get a larger sales volume, and at the same time reduce their costs of production, so they can bring lower prices than they have been selling at, or their cost of production in line with lower prices, and by a little surrender of profit in one period, to win them, at a later period, through lowering the cost, the better prices that the larger volume will permit.

I think those are the main principles of the bill, but I would like very much, sometime or other—I do not know whether I will do it now, or not—to discuss this growth of debt. I have some figures here and they are attached to the brief, and they are very significant and I think very dangerous. There is some question of the studies that have been made——

Mr. GOLDSBOROUGH. You may proceed, sir——

Mr. HARVEY. I beg pardon?

Mr. GOLDSBOROUGH. I say you might proceed with that discussion, and if you do not read it, the complete statement will be in the record.

Mr. HARVEY. Yes, sir.

Mr. HANCOCK. Would you mind, right at this point, emphasizing the difference between the certificate of credit to which you refer, and the old bills of exchange, just briefly?

Mr. HARVEY. Well, what would be a bill of exchange, do you mean, between banks, for instance?

Mr. HANCOCK. I mean the old mercantile type of bill of exchange.

Mr. HARVEY. There is a very little difference between them. The mercantile bill of exchange arises from the exchange of goods as also do the credit certificates, but the certificates are not negotiable, they can only be used for the specific purpose of maintaining deposits. They are limited bills of exchange, in other words, between banks. Does that answer your question?

Mr. HANCOCK. Yes.

Mr. CROSS. You suggest here, and in this bill, as I understand it—coming down to the practical situation where something could possibly be done, which I do not know, and I am not expressing an opinion, but it looks like to me that you have to make it simple

and plain enough for everybody to grasp it. I have not grasped it, and I fear it would not be understood by the Members of Congress.

You talk about issuing these certificates of credit, and they do not cost the Government anything. The Government does not take on any liability. I just do not see how it is going to operate, because my mind has been so built on what I have understood before.

Suppose I am a merchant and I have a stock of goods here and I want to get rid of it, and the price of those goods—we will say those goods should sell for a certain amount, sufficient for me to get back what I paid out for them, with sufficient profit to carry on the overhead and get a fair return on my investment. I cannot sell them that way and I, therefore, say that I am going to sell this stock of goods out, and I am going to put a discount on what they cost me of 25 percent. Now, when I sell those goods out, where do I go to get that discount back—we will say, the 25 percent discount? Where would I go to get back the 25 percent discount of what I would sell them for, with a decent income on my investment? Where would I go to get that 25 percent, who is going to put it up? I am selling out here, I am selling out my goods——

Mr. Goldsborough. He is asking you, under the bill, how it operates.

Mr. Cross. Where am I to go to get it back?

Mr. Harvey. You would get the amount of your discount. You would assemble them, probably, as you would on any sheet, and if you sold a hundred pairs of shoes, for instance, you would have 100 vouchers, we will say, which the customers would initial, if you like, to show that you have allowed it. You put them all together and put them on a voucher sheet——

Mr. Cross. And those 100 pairs of shoes show what they cost me——

Mr. Harvey. No; you simply put the amount of the discounts; that is all that is necessary.

Mr. Cross. Maybe I am sticking somebody. I might say I am putting a discount on here of 25 percent when, in fact, I am only putting on 10 percent——

Mr. Harvey. Well, you might stick somebody that way, but I think the public, on the whole, knows pretty well when they are getting value; I think that is a pretty well-established thing, and I think a retailer—or if you did that, I think you would find that some of the other people who sold on good terms, for instance the large department stores, would put you out of business, because the prices would be higher.

Mr. Cross. The point I am getting at now is this: They are not all discounting when I am, because if they were, then I do not see how I could unload, because if everybody was to put on an equal discount, a discount equal to the one I am putting on, then the purchasers would be scattered and divided up and they would supply their wants and still I would have my goods on the shelves.

Mr. Harvey. There is nothing in the world to prevent you from making a 50 percent cut, instead of a 25 percent cut, if you wanted to.

Mr. Cross. If I am going to get it back in credit, why could I not just make a 90 percent cut?

Mr. HARVEY. You could, if you wanted to get the business. Ford could have done that when he first put his Ford "tin lizzie" on the market, but he did not do that; he took about 25 percent off of his costs.

Mr. GOLDSBOROUGH. Mr. Harvey, there is a provision in this bill, I think—if it is not there, it can easily be put in the bill, which I have in mind—that in any event, when it is found that a retailer is not acting in good faith——

Mr. HARVEY. If he is not acting in good faith, yes; he will be through.

Mr. GOLDSBOROUGH. He would have no connection with the set-up any longer?

Mr. HARVEY. No.

Mr. GOLDSBOROUGH. Now, then, Mr. Cross has asked you if this discount of 25 percent, we will say, is maintained by all retailers—he is asking why a specific retailer would get any more business than he did before? The answer to that, I presume, is——

Mr. HARVEY. I did not catch the question.

Mr. GOLDSBOROUGH. The answer, I presume, is that the money of the ultimate consumer would go much further than it would otherwise go?

Mr. HARVEY. Yes. I beg your pardon, Mr. Cross. I did not get that part of your question. That is the point. Then a man who has a $100 salary will be able to buy $120 worth of goods, we will say, with it. That means that $120 worth of goods have gone off of the shelves, instead of $100 which would otherwise have gone off of the shelves.

Mr. CROSS. Well, now, how are you going to determine what would be a reasonable discount, and who is going to determine it? Suppose I should say, "Well, I think a reasonable discount is 50 percent." Now, you cannot prove that I am on the square about that. Another fellow thinks his is 25 percent, but if the other fellow is going to get the full value of his credits, the other fellow will be trying to get down and get as much as he can.

Mr. HARVEY. If he wants to fix his own discount for competitive purposes, that is up to him. The Government office definitely fixes the discount which they will reimburse. Now, if you go outside of that, if you do not allow as much as that, or if you allow more, in either case it seems to me that you are the loser; you would get that 25 percent, but no more.

Mr. CROSS. It would be a fixed discount?

Mr. HARVEY. It is a fixed, blanket discount.

Mr. CROSS. A fixed discount?

Mr. HARVEY. Yes, sir.

Mr. CROSS. All right, let me follow that up. I am the Government and I fix a certain discount upon which everybody can sell, which, of course, would make them lose money so far as what they pay out for their goods is concerned. Now, I give everybody a credit certificate; is that redeemable anywhere, or what kind of proposition is it?

Mr. HARVEY. No; it is not redeemable. It is not redeemable, it is recallable. It is recallable, if too much money gets into circulation.

Mr. CROSS. Well, who would determine when too much money gets into circulation?

Mr. Harvey. The Federal Credit Commission.

Mr. Cross. Who would recall it?

Mr. Harvey. The Secretary of the Treasury.

Mr. Cross. How is it going to get in, if it is out here in my hands or in your hands, or the other merchants' or bankers'? It is out there in your hands and you put out your goods, how are you going to recall it; what are you going to swap the other for it?

Mr. Harvey. You do not swap anything off for it. You merely reduce the money in circulation.

Mr. Cross. How am I going to get it back? Who is going to give it back to me?

Mr. Harvey. Who do you refer to as "I"?

Mr. Cross. Suppose I am the Treasury, or a credit outfit, or whatever you want to call it, or the Government, how am I going to get it back?

Mr. Goldsborough. Suppose he is the Secretary of the Treasury——

Mr. Cross. How am I going to get back these credit certificates that are out and held by every "Tom", "Dick", and Harry? How am I going to get them back?

Mr. Harvey. You will get them back by reducing the volume of deposits throughout the banks. If the banks had 60 billions of deposits and you decided that 55 billions—that there was a tendency to inflation and that 55 billion would be enough, you would call in 5 billion of those certificates, and you would do it not by canceling the certificates, but by calling in the deposits through the reverse discount, which is what the bill provides for, or through open market operations, by selling Government bonds and drawing in the money that way.

Mr. Goldsborough. When you say "reverse discount", you mean universal sales tax?

Mr. Harvey. Universal sales tax. Apply those proceeds to the reduction of the amount of the deposits, and that would call in an equivalent amount of certificates from the banks.

Mr. Cross. And you determine the time to call in, to control the amount of credits, by the commodity price line?

Mr. Harvey. Under the formula, I think, most certainly. You see, the trade index would show if there is a surplus in existence. The price index of securities in 1929 showed there was a surplus, there was a great deal of surplus money circulating, short circulating in the security markets, but there was not a surplus of money circulating in the commodity markets, except the speculative kind.

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Mr. Cross. Of course, we are just having a private conversation, with nobody here but the chairman, who is familiar with this, and myself, and I am not familiar with it at all, but I want to ask you these questions, because I introduced a bill, at one time, hoping that something might be done, and I finally came to the conclusion that it could not be done and I quit. The idea was original with me, and I never saw it anywhere else, and it was this: I was going to use the gold and silver money for the price levels, which probably called for

50 primary commodities, but anyway, taking the old commodity prices, and we would say that we would take them over some prosperious period, like the year 1926, which is so much discussed. Now, we will say the prices have fallen as the result of deflation of credit, bank credit, which evaporates like mist before the sun when people get scared; that, in place of the system we are under, that whenever the price level fell 2 percent of what it was, for instance, in 1926, the Government would cease collecting income taxes, but continue to take currency—you can call it "printing-press money", if you want to—but paid it obligations with currency and paid off the bonds as they fell due until that price level went back to where it was in 1926.

If prices began to get too high, than you would begin to—you would stop then and commence putting on the income taxes sufficient to check it and put it back where it should be in 1926.

So, by using the matter of those two processes, you would hold your price level on an even keel, and you would have no intricacies about it, and finally it would result in paying off all of the Federal bonds and get rid of the Government paying interest on its own credit, which we do—of course, we do not get rid of the municipal and State bonds, but I am talking about Federal bonds—and by the use of issued currency, you hold the price level steady, put it in circulation, and take it out for income taxes. Then we would get a scientific currency and we would have a dollar the same value today as it would be 10 or 20 or 30 years from today.

Now, that was, it seems to me, simple, understandable, and the only thing that would worry you, of course, is that this international service, the goods that are purchased from abroad. Of course, as long as we have a trade balance in our favor, you do not mind that, because they have got to take out money to pay for the goods they buy from us, and they absorb all of it. If we reach the point where the trade balance is against us, then that would be another proposition. So far as conditions exist which have for many years, where we have a trade balance in our favor, it looks to me like it will work. But as I said, I soon found you cannot get anywhere. The mind of the average man is hooked on the proposition that you have got to have your paper currency redeemable in some kind of metal, and as long as you hold to that, you are powerless.

Now, do you not think that would work?

Mr. Harvey. I think it would be an improvement on the present system, Mr. Cross, but I think it has several very serious objections, which are directly related to——

Mr. Cross. What are the objections?

Mr. Harvey. Well, one objection is, that it would take a vast amount more of money to do it to keep the balance, because so much of the money that you put out in that way goes directly into what is known as static money.

Mr. Cross. No matter where it goes, you keep your price level fixed, and it does not matter how much is out or how little is out. You have got your price level there, so people can get the price for their products, your shoes and hats and other commodities?

Mr. Harvey. That would be managed currency, would it not?

Mr. Cross. Sure, it would be managed currency.

Mr. Harvey. Would you manage it through general price levels, including securities and commodities, or would you manage it

through commodities, or would you manage it through securities alone?

Mr. Cross. I think I would manage it something like what is known as the economists' index. I think there are something like 50 commodities, because the others will follow right along. Of course, we use 784 commodities down here, and that is, in my opinion, too many, and too complicated. I understand Sweden uses a commodity price level; I believe they use the economists' price level.

Mr. Harvey. Then I think one answer I would like to give you is illustrated by the conditions today. The Government is putting out a great deal of money; it is not doing that by means of the system you propose, but it is a parallel system of spending a great deal of money, and the result of that is that the primary deposits, that is, the deposits which are not subject to that, have not been derived from debts, from loans—your annual loans have been increased in the last 2 years from $15,000,000,000 to nearly $25,000,000,000. In other words, the static money has increased, and it will be doubled in a comparatively short time under the present release of funds and the way it is being done.

As I say, under that system, it would have the same effect; in other words, it would take $2 of this type of Government money to affect the market's $1. It is really taking more. The Government has to put out $2.50 in order to get $1 worth of results. That is the weak spot in all of those systems.

Mr. Cross. Here is a big difference: Under the present system we are taxing ourselves to pay interest on these bonds. Under the system I am talking about, you would not do it, and to make it simple, here is what we would do: If the Government wants $1,000,000,000, we would go over here to the Bureau of Engraving and Printing and say, "Print me a billion dollars worth of bonds." All right. "Now, print me a billion dollars worth of currency." All right. They print them and I take the bonds in one hand and the currency in the other and walk over, for instance, to the Federal Reserve bank and I say—of course, I am cutting out all the in-between stuff—"Here is a billion dollars worth of currency, take it and make a book notation of it." Now, here is a billion dollars worth of bonds, drawing 4 percent interest. They are my bonds and my currency, and then I turn around and tax myself 4 percent—say I am the people—I tax myself 4 percent on a billion dollars worth of bonds, and it is my credit and my bonds and my currency, and I do not see any wisdom in that.

Mr. Harvey. No, sir; I do not, either.

Mr. Cross. That is what we are doing.

Mr. Harvey. That is what these credit certificates are aimed to abolish.

Mr. Goldsborough. Gentlemen, we will have to adjourn. I have another meeting here in this room at 1:30, and the committee meets again at 2:30 and, Mr. Cross, it is perfectly agreeable, if it is agreeable to the committee, for you and Mr. Harvey to continue your discussion.

(Thereupon, a recess was taken in the hearing until 2:30 p. m.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

Mr. GOLDSBOROUGH. Mr. Brown, we will be very glad to hear you, sir.

Will you state your business, Mr. Brown?

STATEMENT OF ALLAN R. BROWN, CHAIRMAN, NEW ECONOMICS GROUP OF NEW YORK

Mr. BROWN. I am an attorney, at 11 Broadway, New York. I have been practicing customs law for a long time. I first became interested in the monetary problem about 20 years ago, during the war, when many issues arose that showed the absurdity of our money system.

Today I am chairman of the New Economics Group of New York, 55 Fifth Avenue, New York, and I have also been requested to represent the Western Social Credit Federation of Pasadena, Calif., which consists of about eight groups in California and Oregon. Also I have been requested to represent the Boston branch of the National Social Credit Association, 20 Louisburg Square, Boston.

I have prepared for the committee and would like to submit a commentary on the bill now before your honorable committee, which I would like to have incorporated in the record.

Mr. GOLDSBOROUGH. Without objection it will be incorporated in the record.

(The statement referred to is as follows:)

COMMENTARY ON H. R. 9216, NATIONAL INCOME AND CREDIT ISSUE ACT

(Submitted by Allan R. Brown, chairman New Economics Group of New York, New York, N. Y.)

PREAMBLE AND DECLARATION OF POLICY

By this bill Congress resumes its constitutional duty of issuing money and regulating its value, a duty and a right which it has long abdicated to the private banking system.

In so many words, it abolishes the practice of creating bank deposits by private groups upon fractional reserves. The fractional reserve system is what permits the private creation of money, which has disorganized our monetary structure. Its abolition is the destruction of the banks' monopoly of credit.

The purpose of this resumption of the constitutional function of Congress is, in the words of the bill, "* * * to provide monetary income to the people of the United States at a fixed and equitable purchasing power of the dollar, ample at all times to enable the people to buy wanted goods and services at full capacity of the industries and commercial facilities of the United States * * *"

It is unnecessary to dwell upon the necessity for a criterion such as is here adopted. At the present time our industrial facilities are operating at reduced speed because the consuming public cannot buy the products of industry. There is a gap between incomes and prices. This bill provides a means of raising buying power to the level of productive capacity.

Under the fractional reserve system the bulk of our money, credit, is issued only when financial interest dictates its issuance. It is only by chance that the supply of money is in accord with the industrial needs of the country. Under this bill, for the first time, the issuance of money is conditioned solely

by the needs of production and consumption. The prohibition of lending upon fractional reserves, of course, puts the Government in absolute control of the issuance of money and avoids any danger of a speculative inflation.

The last part of the preamble of the bill, "an adequate supply of money with a unit of fixed average purchasing power, which will avoid excessive expansion or disastrous contraction", indicates that Congress intends to avoid the excessive expansion of money as well as its undue contraction. The means of accomplishing this intent are found in title IV of the bill.

This bill assumes, initially, that all primary or basic money, whether it be banknotes or bank deposits subject to check, belongs of right to the people when created. It is backed by the wealth of the people in goods and services. It should be paid to them directly for their permanent use in business, instead of being lent to them by irresponsible private groups, as a debt which such groups may arbitrarily recall from business use.

The national credit policy proposed in this bill implies a shifting of the assumption of ownership of credit, at the moment of its creation, from private hands to the government as representing the industrial community of the Nation. It assumes that real credit is a correct estimate of the Nation's collective capacities to produce and deliver wanted goods; that financial credit is the reflection of this real credit in symbols of value, and that these symbols belong to the people who are the owners of real credit. This conception is unequivocally opposed to debt as the condition of primary credit issuance. Hence, it makes the issuance of certificates of national credit, as provided in the bill, conform directly to successive estimates of the capacity of the industries and people of the United States, as determined by official indexes.

Aside from the system of debt creation which conditions credit issuance, the permanent financial tendency which induces periodic depressions is revealed in the time-lag of payments from the industrial system into consumption. Technological advance continuously increases the percentage of indirect payments on account of overhead at the expense of a continuously shrinking percentage of direct payments on account of wages and salaries. Industry manufactures goods and services but does not manufacture their equivalent in money. The chronic and growing inefficiency in distribution of money payments to individuals is regarded by the bill as requiring continuous correction through a national credit dispensation, in order to expand income payments in proportion to the continuous expansion of productive capacity through improvement of applied science and the arts.

The bill proposes two measures to effectuate its policy. These are a discount on prices to consumers at retail, and a monthly national consumers' dividend. They are both supported by the issuance of certificates of national credit.

The retail discount is an effective mechanism for equating the income of the consumer public to the capacity of the Nation to produce wanted goods and services.

During the first 3 months' period the retail purchaser will buy his supplies and services for individual and family consumption at a discount of 25 percent of retailer's price; thereafter, according to the discount formula prescribed in the bill. The retail discount rate is determined as the percentage which the unused productive capacity of the Nation bears to its total productive capacity. Unused productive capacity is reckoned as the difference between total consumption and productive capacity.

The retail discount may be dispensed by any department store, mail-order house, individual shop, or any seller of goods, including dwellings, or services to ultimate consumers for their individual and family use and not for resale, provided that the seller shall have contracted with the Secretary of the Treasury to abide by such regulations as to cost accounting, fair trade practices and professional ethics as shall be prescribed by existing trade and professional associations or other agencies authorized by law.

Thus protected in his purchases of goods subject to benefit of the discount, the purchaser finds the same protection in his purchase of services for individual and family consumption. He buys his railway, bus, and street car transportation tickets and his theater tickets at the current discount. He pays his family bills to the electric light and telephone companies, to doctor or hospital, to the private school, and his monthly rental to the landlord with benefit of the discount. If he buys a home, that, too, is subject to current discount as the payments are made.

Inasmuch as the purchaser will not know whether the next succeeding discount rate will be as favorable as the current discount, he will have a constant incentive to take advantage of the current discount by making all possible purchases while the discount is in operation; this obviates the necessity of "buy now" campaigns, as it assures continuously quick turnover of goods and services in trade.

Upon application of the retail discount real wages are horizontally raised throughout the Nation.

The purchasing power of the farmers is horizontally raised by application of the discount.

The purchasing power of all receiving business profits, dividends, rental receipts, yields on securities to private investors, and so on, is horizontally raised by application of the discount.

An immediate and horizontal rise in the standard of living for all individuals receiving wages, salaries, profits, and dividends, is accomplished by the discount on retail price.

It seems obvious that as the new volume of credit money comes into play in the form of actual consumer demand, the unused facilities of industry shall compete by the added flow of goods and services in response to new orders in a manner to prevent an inflationary rise of the price level. In order to avoid too sudden expansion, the bill provides that the retail discount rate shall not be advanced by a figure of more than 5 percent in any period.

As the credit is applied at that point where the total costs of the industrial process are summed up in the final price to consumers it gives financial support to the entire structure of industry and is rapidly passed back in an augmented volume of repeat orders to wholesalers, manufacturers, and prime producers.

This direct financing of industry by means of augmenting consumer demand, instead of by means of production credit, has the advantage of primary application only to goods and services actually purchased. Only after the goods are sold, demonstrating the actual demand of the public and only after the retail price level has been subjected to the discount, thus enriching instead of diluting the purchasing power of existing money in circulation, is the expansion of credit made. When it is issued it is in reimbursal to the retailers of the discount already incurred by them, and it is measured against the new flow into trade of goods and services in a manner to hold the price level stable.

In order to compensate retailers for their disbursal of the retail discount, the banks are directed to accept vouchers evidencing sales at the discounted price, and to create credit to the account of the retailers in the amount of the discounts which they have granted to consumers.

The Government directs the banks to create this credit; the Government does not derive the money to reimburse retailers out of taxes. When the banks have issued the necessary credit to the retailers, the banks, in turn, are reimbursed for the demand deposits which they have allowed, by the issuance to them of a like amount of Treasury credit certificates. Such certificates are based on the national credit account, and the national credit account depends upon the estimate of unused industrial and trade capacity.

Such Treasury credit certificates are warrants to the banks to issue a Government credit to the retailers. So far as the banks are concerned, the credit is more sound than the securities customarily used as a warrant for the issuance of credit represented by private loans. This is true because under the bill they are legel tender between all banks in settlement of interbank balances, and in physical actuality they are backed, dollar for dollar, in goods and services.

NATIONAL CONSUMERS' DIVIDEND (TITLE I)

Inasmuch as many millions of the American people are bereft of purchasing power wherewith to take advantage of the retail discount, an emergency reason exists for devoting part of the issuance of Treasury credit certificates to a national consumers' dividend. This is provided for in section 8 of the bill. Five dollars monthly is to be paid to each citizen during the period of 1 year. The bill contemplates the permanent employment of this method of augmenting consumers' purchasing power and provides that it shall never amount to less than 5 percent of the national credit account, i. e., the monetization of our unused industrial facilities.

If applied alone, the provision for the national consumers' dividend might be inflationary; but if apportioned during the application of the retail discount, the national consumers' dividend would be spent with all the safeguards provided for price-discount control of the price level. The recipients of the consumers' dividend would thus find their augmented income enriched instead of diluted in purchasing power. Quickening of the relief demanded by resort to the national consumers' dividend would be accomplished through the incentive of spending the dividend in retail purchases with the advantage of the discount. Recipients of the dividend, not knowing whether the retail discount would be reduced or suspended in the next succeeding quarter year, would have the incentive to "buy now", thus producing maximum employment of men and machines.

The considerations involved in making the national consumers' dividend a permanent provision relate to the common societal heritage of education, science, invention, and the arts. These considerations are identical with the principle that underlies the recapture by the public of patent rights. The principle assumes that the societal heritage handed down from past generations is justly apportioned through national consumers' dividends of public financial credit based on the real credit of such heritage. The dividends thus supplement the wage system which suffers an accelerating shrinkage as a means of distributing consumer purchasing power, due to the substitution of power for human labor.

FEDERAL CREDIT COMMISSION (TITLE II)

The provision of a nonpartisan Federal credit commission appointed by the President with the advice and consent of the Senate, is in pursuance of the proposed assertion by Congress of its exclusive constitutional power to create money and regulate the value thereof. In consequence of the growth of the credit system, regulation of the value of money has been accomplished chiefly through credit issues, which constitute the medium of exchange for nine-tenths of business transactions.

When the Constitution was adopted, the framers created a system of checks and balances in order to insure the retention of real democracy. They instituted the judicial, the legislative and the executive branches of government. If at the time of the adoption of our Constitution conditions had been what they are today, the framers might well have established a fourth independent branch of government for the control of credit, and they might have indicated generally the purposes for which that control was to be used.

The provision for the Federal Credit Commission establishes a body which is independent of any extraneous influence whatsoever. It can determine impartially the real facts of production and consumption. It is upon these facts that any sound monetary system must be based. If the action of the commission can be diverted by financial, political, or sectional interests the whole aim of the bill would be defeated. If Congress asserts its power over initial credit issues owned by the people as the chief part of their money system, and without the implication of debt which private issuance would entail, it becomes of prime consequence that such publicly owned credit should be proportioned to the underlying real credit of the community. Such real credit, as defined, consists in the collective capacities of the community to produce wanted goods and services. The credit issues, therefore, must be made upon accurately kept records of real credit.

On this account the Federal Credit Commission is constituted and charged with the duty of maintaining a statistical bureau to collect and coordinate the facts of real credit and to declare the retail discount credit upon the facts determined. Upon the determination of facts the Secretary of the Treasury depends in graduating the successive issues of credit certificates.

The constitution of the Federal Credit Commission follows the framework already adopted for the nonpartisan tariff commission. In view of the function of the credit commission it might well be provided that commissioners, before assuming office, dissociate themselves from private financial interests.

NATIONAL CREDIT ACCOUNT

One of the most important functions of the Federal Credit Commission is to establish and maintain the national credit account which is the basis for the issuance of the national credit certificates. Such credit certificates are the

formal warrant to the banks for issuing the credits necessary to finance the retail discount and the national consumers' dividend. This bill, section 202, bases the national credit account upon the unused capacity of the industries and people of the United States for the production of wanted goods and services. It makes the national credit account a matter of yearly computation and provides that at the end of each year the amount of the national credit account which shall not have been drawn upon in that year shall be written off.

NATIONAL CREDIT CERTIFICATES AND FRACTIONAL RESERVES (TITLE III)

In this title the financial mechanism is provided to validate the previous provisions of the bill. It provides first for the issue of national credit certificates throughout the banking system to cover the disbursements authorized. They are issued as specific credit instruments, or warrents, to the banks to enable them to expand credit (i. e., the circulating medium in the form of bank deposits) under definite limits provided in the bill. They authorize the banks to issue buying power, and are based upon the value of the production that they evoke. In this respect they resemble the conventional credits which the banks now issue for their own account for production for which they figure there will be effective demand. But the credit base is national production that is unused, not private credit represented by fractional reserves.

The duty of measuring the volume of this credit, by strict statistical methods, and designating the amount that can be safely set up in the national credit account, and also the amount that should be issued, is assigned to the Federal Credit Commission.

The certificates are issued in such denominations as circumstances dictate. They circulate through the banking system in exactly the same proportion as the deposits to which they give rise circulate among the people of the Nation.

In other words, the provision of the national credit certificates is to give public warrants to the banks to do what they are now doing without warrant save the warrant of custom, namely, create demand bank deposits.

Only in this case the warrant is not to create demand bank deposits to loan. It is to create such deposits to be paid to the retailers, reimbursing them for having already given to the people as consumers, equivalent sums as discounts on retail price of goods and services.

Thus the national credit certificates are warrants to the banks to create and pay to the people, through the agency of retail distributors, demand bank deposits based on the unused capacity of industry to produce and deliver wanted goods. The certificates are issued only after the goods are bought in volume sufficient to draw upon such unused capacity through the retail discount.

The method by which the national credit certificates would circulate as deposit warrants in the banking system, is as follows: Let us suppose that a commercial bank has 10 deposit customers who dispense the retail discount to their customers in sums evidenced by the sales-discount vounchers which they bring in, duly executed on forms provided by the Secretary of the Treasury.

Settlements for these sums disbursed as discounts to consumers are made by the commercial banks receiving from the Treasury the equivalent of such sums in national credit certificates.

The certificates then constitute warrants to enter a new deposit to the account of each customer, according to the sums of his sales-discount vouchers.

On February 1, let us say, the 10 customers of the bank deposit $10,000 cash, and $2,000, in discount vouchers. The bank credits each customer with his cash deposit, as usual, and it then credits his account with his proportion of the $2,000, that is represented by the sum of his discount vouchers turned in.

The bank then charges the national credit certificate account with the amount of the extra deposit on receipt of the discount vouchers.

The bookkeeping side of the transaction is simply this: The bank calls for and receives from the United States Treasury, through its reserve bank or other agency $2,000 in national credit certificates. It credits receipt of these certificates to its National Credit Certificate Account. Then it enters the same sum, as distributed to the accounts of its 10 customers, as a charge on the bank's general ledger deposits account.

Thus the sum of the customers' deposit accounts will be increased by $2,000. The national credit certificate account is then in balance. Also the general ledger deposits account is in balance with all customers' accounts.

When a commercial bank has an adverse clearing house balance, which it would have to pay in currency (or a check on its Federal Reserve balance), it

may settle in part with national credit certificates, under the terms of the bill. The settlement by means of the certificates would be in exactly the same proportion as the total of the certificates which the commercial bank holds, bears to its total customer deposits. This is because a new volume of trade is being handled, with the certificates in like proportion.

The clearing house is instructed to receive such certificates in part settlement of the adverse balance, and will distribute them to the banks that have favorable balances, in the same proportion pro rata.

A commercial bank having a favorable balance with its clearing house receives national credit certificates in settlement, in the same relative proportion to its total favorable balances that the total certificates received by the clearing house bear to the total of all settlements made.

Such banks, on receiving the certificates, treat them exactly as though they had been received from the Treasury, and credit their accounts in the same proportion as the amount of the certificates so received bears to the total sum received from the clearing house for account of their depositors.

The regulations should state that the national credit certificates shall not be used for settlement of specific transactions between banks involving their own funds. Nor shall they be used as backing for loans, or for the expansion of private extensions of credit in any form. They are to be used only in settlement of interbank balances for account of their depositors as provided in the act.

Failure to observe such provisions would constitute a misdemeanor punishable by fine and imprisonment, as provided in the act.

CREDIT CERTIFICATE RETIREMENT FUND (TITLE IV)

The retail discount and the national consumers' dividend eliminate the arbitrary contraction of money. Title IV, the credit certificate retirement fund, is inserted for the purpose of preventing the undue expansion of money. The fund is established for the purpose of retiring the treasury credit certificates which have been used to finance the retail discount and the consumers' dividend. It is provided that one-fourth of the national revenue in each fiscal year, over and above the amount required to balance the normal budget estimate for that year be set aside for this purpose. It is anticipated that there will be surplus revenues derived from the revival of taxable values incident upon the resumption of industry and trade approximately at full capacity.

During the so-called prosperous years, 1922–29, the national revenues sufficed to balance the budget, and without increase of the rate of taxation, to produce a surplus. This surplus was used to retire billions of Federal Government bonds. This was accomplished despite the fact that the capacity of industry was not nearly drawn upon during the period in question. It seems probable, therefore, that a method of drawing upon industry by augmentation of purchasing power commensurate with full capacity of production, would yield a surplus even more bountiful than in 1922–29.

In addition to the use of this retirement fund by the Secretary of the Treasury in order to prevent an unduly expanded monetary condition, added measures are included which may be availed of, in the discretion of the President, to prevent an inflationary rise of the general price level.

The President may reduce the current retail discount rate. He may suspend operation of the retail discount. He may even establish a negative retail discount rate, not to exceed 20 percent, except upon foodstuffs, clothing, household fuels, dwellings, and rentals of dwellings.

Such discretionary measures constitute a "club behind the door" not to be wielded, of course, save in the extraordinary contingency that the regular brakes upon inflation shall for any reason prove insufficient. These regular brakes are (1), the requirement that no credits shall be created save upon a demonstration that there is a margin of unused industrial capacity whereon to base such credit; and (2), that the credit be restricted to such margin of unused capacity at least 20 percent below full capacity.

Mr. GOLDSBOROUGH. Now, you may proceed in your own way, sir.

Mr. BROWN. I won't read this statement now.

Mr. GOLDSBOROUGH. That is up to you, sir.

Mr. BROWN. I won't take the time of the committee to do that.

The way that the monetary problem came to my attention was not in an academic way, but in a practical way in representing clients. I found during the war, and soon after it, that knitting machines from Germany, which they were buying at $10,000, we appraised at the equivalent of $300 in German paper marks. Also during the war, when the various foreign countries went off gold and issued paper, the situation may be illustrated by the case of Italy. They exchanged the paper lira at 66⅔ percent of the gold value and accordingly American importers had to pay 50 percent more for Italian goods. When the goods came over here, after paying the 50 percent more in paper lira, they were required on the increased number of lire to pay duty on the basis of the gold valuation. In other words, in both cases, working both ways, it became evident that money had no relation whatever to the real value of the goods, and since that time I have been somewhat of a student of our monetary situation.

I was very glad to hear Mr. Goldsborough quote Senator Owen in referring to what has been done, because I know that the passing of laws is futile unless there is a basis in popular understanding, a desire, and there has been such a change.

I well remember many years ago when I was a young man, when Mr. Dooley was alive, if I may say so, when we spoke of inflation we spoke of the relation of paper money to gold, but today we do not think of that at all. The level of our thinking has changed. We think of check money in its relation to goods. Is is going to cause an inflationary rise in prices? And, as Senator Owen has so ably pointed out, it is on that level of thinking that we are progressing.

Now, I believe that this bill represents a further advance. There have been attempts, but partial attempts, and it seems to me that this bill accomplishes what we want, that is, a direct relation between money and our goods and services. That must be a stable relation, of course, but to my mind at the present time the difficulty is not so much an inability to secure stability as it is that there is no relation at all.

Of course, the value of the dollar cannot be stable if we do not consider in any way the products manufactured and consumed by the community.

Now, in order to effect this relationship, the bill proceeds in two ways. First it abolishes the fractional reserve system. What does that mean? It means that it eliminates any possibility of the private manufacture of money, which private manufacture is a direct contravention of the mandate of the Constitution, which places the right to coin money, that is, create money, in the hands of Congress, and which also gives Congress the power to regulate its value. The question of value has recently been passed upon by the Supreme Court, and they took the view that value did not mean metallic content, necessarily. Of course, Congress can change the metallic content of the dollar, but the Court took the very forward looking view that the value of the dollar was its purchasing power, and, with that in mind, the possibilities under this bill are well within the power of actualization.

Aside from the destruction of the power of the banks to issue money, make loans, and, as a byproduct, manufacture money on the basis of fractional reserves, the bill attacks the problem in another way, a more indirect way, but no less effective, and, to my mind, more advantageous directly to the community. That is, at the present time, on a 10-percent base, the banks manufacture money when they make loans; that is, they create deposits. Those deposits are drawn upon by check, and the money goes into circulation in the community.

That is well enough, I think, if the proper money is created, but the tragedy is that when the loan is recalled, the money of the community is destroyed when the bank deposits are destroyed. That was well pointed out by Mr. Eccles in his testimony on the Banking Act of 1935. He said that under the present system, the withdrawal of bank loans inevitably destroys the money of the people, and that that has to be restored by public borrowing.

Now, if you admit that the only way to manufacture money is to manufacture it as a byproduct of borrowing, that is absolutely true, that statement, but in this bill another way of manufacturing money is provided, more efficient and cheaper than the way which we now use. By this method we do not necessarily destroy the power of the banks to create money by making loans, but we make it absolutely impossible that when the bank recalls that loan, it can destroy the money of the people. In other words, as bank loans are recalled and consumption necessarily diminishes, this bill provides, and entirely on an impersonal basis, on a strictly scientific and automatic basis, that the money recalled, destroyed by the recall of loans, shall be replaced by the issue of credits directly to the consumer, financed by Treasury credit certificates, as Mr. Harvey has explained this morning.

The method of introducing these credits, as Mr. Goldsborough has said, is by means of a retail discount. A retail discount of 25 percent, which is proposed in this bill initially, is equivalent to a raise in the real value of wages of 33⅓ percent, and the application of a retail discount is more general in its effect, more equitable, than an increase of the wages of the working man, because, after all, at the present time we as a society have to think of somebody besides the working man. That is, we say to a man today, "If you do not work, you will starve", and then we do not have any work for him to do. What is a human being to do under such a situation?

This bill implicitly recognizes that condition, because it issues credits to the community as a whole. We are all consumers; we all need food, clothing, and shelter, whether we are working or not, and therefore the retail discount increases not only wages, but it increases the buying power of the community, and the bill contemplates that that situation may be developed further, because it provides also what is called a national dividend, that is, a payment to all citizens of $5 a month, independent of purchases, independent both of wages and of national debt, and that can be used to supplement those means which we now have of distributing purchasing power.

Title II of the bill deals with the Federal Credit Commission, which is established by the bill on the lines of the present Tariff Commission. It is an impartial body, and we can have a supreme court of credit.

I have always said that if credit had been at the time of the founding of our Constitution the power which it is now, the framers of our Constitution, in balancing the powers of the Government, would have instituted not three but four branches—legislative, judicial, administrative, and credit control, so important it is. As a matter of fact, though, they instituted only the three, and gave the control of credit to Congress.

Under the decisions, Congress can delegate its power, if it furnishes the criterion by which that power is to be exercised.

I have watched very closely the money bills that have been before Congress, and never before have I seen a definite statement of what the criterion of the credit policy may be. This bill delegates the power of Congress to a Federal commission, and lays down concretely the rules under which that power is to be exercised.

The third title of the bill deals with the actual financial operation of these Treasury credit certificates, which are warrants to issue credit. It is supposed at the present time that a bank issues credit upon security. It does not. You can go to a bank with security, and they want to make you a loan only if you can show that you can produce certain goods, and have an ample supply of labor to do that, and that the goods can be consumed, that is, that the manufacturer has orders or orders in prospect. In other words, bank loans at the present time, in their last analysis, are made upon the ability of the community to produce goods and services and to consume them, use them, and the security is the legal warrant for issuing the credit. It is not the core or the basis of issuing the credit.

Now, our Treasury credit certificates are warrants, but the basis of the issuance of credit is not a warrant. It is the ability of the community to produce goods and consume them, and that basis is made absolute by this bill, because the retail discount, which is the main source of the issuance of credit, is issued only after the goods have actually been sold. In other words, we have an absolute demonstration of the production and consumption of goods.

There is an act of faith here, because of the assuming that if the merchant can dispose of the goods on his shelves he will send orders back through the jobbers to the manufacturer, the primary producer. I do not think that that faith is ill-considered, and I won't talk more about the Treasury certificates, because their mechanism has been very clearly put before you by Mr. Harvey.

I should like to say a word before I close, however, about title IV of the bill. The bill, in the first place, states as the policy of Congress not only to insure the necessary expansion of credit, but to prevent the undue expansion, and that is what title IV accomplishes. You know that if there is too much money in the country, it is very easy to reduce the amount by taxation. The bill contemplates, in the first place, that our existing taxes should be used for that purpose. That is, from 1922 to 1929, the taxes were in excess of our expenditures, and the national debt was largely decreased. This bill provides that a portion of the excess which we may hope for on the revival of trade and industry should be applied to the retirement of these Treasury warrants.

In the second place, if that is not sufficient, the bill provides that if there is too much money in the country, evidenced by an inflation-

ary rise in prices, a sales tax may be applied. It is not necessary to have a sales tax. I believe myself in a sales tax, but many people think that a graduated income tax is fairer. That is a matter of detail. however.

Finally, the bill gives the authority to the President, if there should be continued inflation, to declare a reduction of the retail discount and, except for necessities, he may even establish a negative discount which amounts to a sales tax.

I do not myself believe that those measures are necessary, except in the case of a gross miscalculation or a physical catastrophe, that limits our productive power, but, in any case, it is there.

That is a complete answer to inflation. I do not believe that this bill has anything to do with inflation, because at the present time we always have inflation or deflation, that is, an expansion of money for financial reasons, only by chance connected with our real economic fuction, or we have defiation or the contraction of money at the will of private financial interests, but under this bill money will rise and fall with the increase and decrease of production and consumption.

That, I think, is the essential thing in this problem. It will eliminate all question of an artificial raising of prices to a certain level, when we thought that we were prosperous, for instance, because such a method proceeds on the theory that our actual life must be governed and directed by money. This bill makes money not the director of our activity, but it makes it the reflector of our activity and prevents it from destroying that activity.

Mr. Goldsborough. Are you through for the present?

Mr. Brown. Yes.

QUESTIONS

Mr. Goldsborough. Mr. Brown, the purpose of this bill, as you understand it, is an endeavor to get maximum production of wanted goods and services to people, is it not?

Mr. Brown. Yes; it is.

Mr. Goldsborough. Make a maximum distribution of the actual and potential producing power of the country in wanted goods and services?

Mr. Brown. That is the only way that you can accomplish production. If you have mass production, you have to have mass consumption.

Mr. Goldsborough. Now, then, I want to ask you this: Until you have achieved that end, how can you have inflation?

Mr. Brown. You cannot possibly have inflation until you have achieved that end. If industry is operating on a 30-percent basis, and there are 15,000,000 men unemployed, you cannot possibly have inflation unless it is impossible to feed those men or to utilize the unused 70-percent capacity of industry. In such case the way to do is not to try to reemploy the unemployed, but just kill them offhand.

Mr. Goldsborough. Mr. Brown, there has been a good deal of misunderstanding, I think, about this sort of legislation. The question is asked continuously, "Where are you going to get the money to pay this discount?" That is one of the first questions that we are asked.

Now, as I conceive it, the results of our present system is inevitable, because we cannot do the things in this country with the limited supply of money that should be done except on the installment basis, and what we are doing in this country is just piling up continually more debt, either public or private. As I see it, we are wasting, I will say for the purposes of illustration, $70,000,000,000 a year of potential productive power. If that can be saved, do you not visualize that the result would be that, instead of the supply of money increasing to a point where there might be a real inflation the first thing that would happen would be the start of the payment of public and private debt?

Mr. BROWN. That would be the beginning.

Mr. GOLDSBOROUGH. And the payment of this public and private debt would absorb either in whole or in very large part this excess over the present supply of money brought into existence, would it not?

Mr. BROWN. It would, and as far as it was used to pay the existing debt, the money would not be used for consumption, and what you have said illustrates the fact that even when the public and private debts are paid, there will not be an overissue of money, because the only reason we issue money is for actual consumption. We issue more than can be used for that purpose, because of the existence of the public and private debt. With the disappearance of that debt, the call for what might be called the overissue disappears.

Mr. GOLDSBOROUGH. You were speaking of a sales tax. I do not know whether you meant a general sales tax or not.

My feeling about that situation is that a general sales tax is an inverted income tax, because the burden of it is borne by those less able to bear it. That is my feeling about a general sales tax.

Now, I look upon this method—and that is just one way of expressing it—I look at the method employed in the bill as an inverted sales tax, the sale tax being a tax of starvation, this inverted sales tax being a means of plenty.

Is that a fair statement?

Mr. BROWN. That is entirely a fair statement, because a sales tax has application primarily to the lowest-income classes. It bears more heavily upon them than it does upon the higher-income classes.

By the same token, a discount such as is proposed here begins its effective application with the lower-income classes.

Mr. GOLDSBOROUGH. That is what I had in mind.

Mr. Brown, we have enjoyed very much your rather remarkable explanation of the concept of this bill, and we thank you very much, sir, for coming down from New York and appearing before this committee.

FRACTIONAL BANK RESERVES

Mr. CLARK. One question, if I may.

With regard to the fractional reserves, the chairman this morning, in reading Senator Owen's summary of this article, as I understood him, said that under the present Banking Act of 1935 the Federal Reserve Board had the power to increase reserve requirements up to 100 percent.

Mr. GOLDSBOROUGH. No; increase them 100 percent; that is from 10 to 20.

Mr. CLARK. Oh, I see; from 10 to 20. Yes; that was my understanding.

Now, do you think that that power in the Federal Reserve Board is sufficient to protect against the evils of the fractional reserve system?

Mr. BROWN. No; I do not think it is sufficient at all. If the Federal Reserve Board had the right to insist upon 100 percent reserves, it might not ever be necessary to use that power, but the power to insist on that at least is required for a monetary system that is not mechanized at the will of the financial interests.

Mr. CLARK. As I understand the bill that we drafted and reported out, and that passed the House, it provided for a possible increase of reserve requirements up to 100 percent.

Mr. GOLDSBOROUGH. No; the bill that we introduced did, but it did not get through that way.

Mr. CLARK. Yes.

Mr. GOLDSBOROUGH. The way the Banking Act of 1935 was introduced in the House, the provision read this way:

> Notwithstanding the other provisions of this section, the Federal Reserve Board, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits, or both, by member banks in any one of the Federal Reserve districts—

And so forth.

In other words, this committee attempted to give the Federal Reserve Board a right to abolish fractional reserves entirely.

Mr. CLARK. Do you think, Mr. Brown, that we should abolish the fractional reserve system outright, or merely do what we attempted initially to do in the 1935 act, to give some board or commission the power to do that?

Mr. BROWN. Well, there I must speak my personal opinion. If you can abolish fractional reserves entirely, so much the better. I personally believe, that if free credits are issued as contemplated by the bill, those free credits will eventually take the place of the debt credit, so that it does not make any difference whether or not you have any reserve requirement at all.

Mr. CLARK. This theory of 100 percent reserves is a comparatively recent thought, is it not, within the last 2 years, we will say?

Mr. BROWN. Well, I should say that it was the original thought, that it is 5,000 years old at least, and that the idea of fractional reserves was simply a chance happening.

Mr. CLARK. Did you read the testimony of Irving Fisher before this committee last year?

Mr. BROWN. Yes; I did.

Mr. CLARK. Dr. Fisher stated very definitely that this idea of 100 percent reserves had never occurred to him before until he had read an article by someone, just recently suggesting it, wherein——

Mr. BROWN. When I made this statement, I mean that if I lend you \$5, I believe that I must have \$5 to lend, and I think that that was the original concept. After that, they found that if they made a business of lending money, not all borrowers would demand their money at once, and so fractional reserves grew up.

I think that Professor Fisher may be quite right in his statement of the contemporary origin of this concept; but I still believe that the only honest concept, the only natural one, is a 100-percent reserve.

Mr. GOLDSBOROUGH. Thank you very much, Mr. Brown.

Mr. Bruce Brougham, we would be glad to hear you.

STATEMENT OF HERBERT BRUCE BROUGHAM, ECONOMIC CONSULTANT

Mr. BROUGHAM. My name is Herbert Bruce Brougham, an economic consultant, and I appear before you in behalf of the New Economics group of New York.

I have to present a statistical calculation, and if the committee will bear with me, I will adhere to my text. It won't be a long statement.

Mr. GOLDSBOROUGH. Proceed in your own way.

Mr. BROUGHAM. This bill would enable the administration to pay the national debt and meet its budget, not out of borrowed money and taxes but out of the margin of unused capacity of American industry that is now wasted, and at the same time double the national income.

Fifty-nine of the Nation's leading engineers and able executives were asked by a commission appointed by President Butler, of Columbia University, whether industry could have exceeded its record of man-hour output if, during the boom years 1923–29, it had been assured of a ready market for all goods produced.

These experts replied, "Yes"; with the then-existing equipment and labor, the output could have been doubled.

The Columbia University commission reported in 1934 that "lack of effective consumer demand", or "lack of purchasing power", easily heads the list of causes for the limited output in those years of active trade; this was true "both for particular industries and for industry at large."

According to this testimony, had purchasing power been adequate, the national income of $81,000,000,000 worth of goods and services, in 1929, might have been doubled to $162,000,000,000 worth of goods and services.

In that peak year, regarded as the most prosperous in our history, there was wasted $80,000,000,000 of income; enough to pay the present national debt of $30,000,000,000 and leave $50,000,000,000 over, this to be added to the $81,000,000,000 which the American people actually accounted as income in 1929.

Notwithstanding the effects of the depression, since 1929 science and invention have added to the industrial capacity of this Nation so that the output per worker, in 1935, had increased by at least 20 percent above 1929. It was almost wholly for financial reasons, therefore, that actual production, in 1935, amounted to only $51,000,000,000 of income. This was $30,000,000,000 less than in 1929, and 112 billion less than the income reckoned as attainable in 1929, in the estimate of the 59 business executives and engineers who reported to the Columbia commission. These business and engineering experts represented a survival, the commission said, of "capacity for reasonably accurate judgments and estimates"; they possess, it added, "a sixth sense of the same order as that of the timber

cruiser who can estimate the feet of standing timber in a forest by walking through it, and on whose judgment large investments are safely made."

The plain inference from their estimates is that at least 112 billion of attainable income is being wasted in 1936, not counting the 20 percent gain in productive capacity per worker since 1929.

Now if $112,000,000,000 worth of goods and services are realizable with existing available labor, plant, and equipment, which we are nevertheless not getting, it should be a comparatively simple matter to supply the needed purchasing power. This can be done by basing new financial symbols on that solid basis of unused and available capacity, that will evoke the reasonably expected added income for the American people.

With $112,000,000,000 of added income thus obtained, we could cease the unsound attempt to borrow ourselves out of debt. In a year's time we could easily pay the entire national debt. We could meet the National Budget of 1936–37 without added bond issues. After doing all this, we should have left over enough added income so that the national income for the fiscal year 1936–37 would be more than double that of 1935–36. We could still have more than $100,000,000,000 of income, after paying the national debt and the heavy Federal taxes.

Gentlemen, the financial machinery for producing this wholly sane and reasonable result, with existing labor and equipment of the Nation, is provided in the bill before you.

But under the prevailing financial regime the Nation may as well charge the one hundred and twelve recoverable billions of income to idleness expense for our unemployed millions of workers and unemployed machinery.

It is common knowledge that the industries of the Nation are still running, on the average, less than 6 hours daily. They are entirely capable of 18 or 20 hours' daily operation, with suitable work shifts, provided there is sufficient purchasing power to buy the goods and services they are ready and eager to produce. Physically speaking, we can easily double, perhaps treble, our annual output and income.

Because of the unsound practice of relying on the private manufacture of monetary credits by private groups, you are preparing to lay heavier taxes on the shrunken income of the people, without hope of balancing the Budget perhaps for years to come. In order to meet the Budget deficits, this administration and the preceding one committed themselves to a program of borrowing, so that now the national debt has doubled from $16,000,000,000 in 1930, to $32,000,000,000 in 1936, with every prospect of further increase.

More than half of this great sum of added debt—that is, at least eight billions—represents merely book figures which the banks have lent the Government. To pay for their service of writing figures on their books and canceling the Government checks in their clearing system, the Government has engaged to tax the American people. They must pay back the billions of book figures with sweat and labor, with goods and services to which they are now denied access of purchasing power for their families, and they must pay enormous debt charges.

The bill now before your committee would put a stop to this process of privately manufacturing monetary credit for the use of business out of added governmental debt.

Chairman Eccles, of the Federal Reserve Board, testified before your committee last year that he clearly understood the source of the bulk of our money, as debt, coming from loans of credit money manufactured by the banks.

In answer to questions put to him by Mr. Goldsborough, Mr. Eccles agreed with him that under our present financial system, if the total of debts could by any possibility be paid off and not renewed, the money of the Nation would be canceled out of existence, and we would not have any money left with which to do business. He said [reading]:

When the community begins to pay its debt to the banks, it extinguishes its money, deposit currency, and if that process of deflation gets under way it is more or less self-generating, and it is very difficult to stop it.

By this means, he declared, one-third of the means of payment of the Nation was extinguished during the early years of the depression. He added that the "compensating factor is the budgetary deficit, which keeps up the volume of money"; that is, our money system can be buoyed up only by new debt creation.

That is the present method of access for the people, in the form of added debt-incurred purchasing power, to the physically increasing real wealth of the Nation in its ever-growing capacity to produce and deliver wanted goods and services. It is due to this condition of debt shackling our physical wealth and inventions that we have 20,000,000 people on the dole and a national income only one-third of what it should be, and easily can be.

The banks manufacture, without borrowing it, the monetary credit which they loan to the Government. For every dollar they themselves contribute to the loaning process they manufacture 10 credit dollars, and call them their own, although they base the credit dollars on human sweat and labor and productive genius which is not their own.

The proposal of this bill is that the National Treasury take over this function of manufacturing monetary credit, without borrowing it, in the same way that the private banks manufacture monetary credit without borrowing it. There is no difference in the process between the two, except this: That the bill requires that the Government instead of giving only one-tenth backing to its manufactured monetary credit, shall at all times back such monetary credit, dollar for dollar, with the goods and services of the Nation in trade.

As stated in its title, the bill would "abolish the practice of creating bank deposits by private groups upon fractional reserves." In section 1 the bill declares the policy of Congress in harmony with the first article of the Constitution, to issue monetary credit within the capacity of the industries and people of the United States, to honor it at all times, and dollar for dollar, in wanted goods and services; which capacity, it further states, "is declared to be the measure of national credit."

Mr. Allan Brown has outlined to the committee the antiinflationary provisions of the bill. In order to reassure you as to the effective working of such provisions, I will show how a practical budget can

be determined by the National Credit Commission, which is set up by the bill, so that the volume of national credit certificates which it issues may be properly graduated for permanent, noninflationary circulation in the banking system.

The crying fault of our prevailing money system is its impermanance. It fluctuates wildly in volume, because it is debt-money, loans, and subject alternately to the fears and the sanguine expectations and speculative propensities of its private owners who have become the debt-masters of all business. It fails to match with its volume of exchange facilities, the permanent and steadily growing volume of capacities for production and trade.

We need, therefore, a permanent volume of credit-money that cannot be extinguished at the behest of any private group; we need it in order to establish a financial balance for the permanently increasing volume of capacities and for the permanent flow of goods in production and trade. We need to be delivered of the curse of a money system that is not owned, as a cash-credit system, by the American people. We want no longer a system that can at any time be cancelled out of existence with the dumping of pledged securities, and, simultaneously, with the depression and deflation of all the physical and intangible assets of the American people.

In determining a budget under this bill with monetary credits manufactured and owned by the Government, let us suppose that the National Credit Commission estimates the possibilities very conservatively.

Let us suppose that it rejects the one hundred and twelve billion dollar valuation of readily attainable annual income from our unused industrial capacity, which would satisfy the calculations of President Butler's Columbia University Commission.

Let us suppose, instead, that the National Credit Commission scales down this unused industrial capacity by about one-half to, say $54,000,000,000.

The task of the Treasury, then, would be to manufacture additional monetary credits enough so that, in their annual turnover as income, they would increase the purchasing power of the American people by $54,000,000,000 in the fiscal year 1936–37.

What rule should the Credit Commission and the Treasury follow in manufacturing enough credits, and not more than enough, to accomplish this result?

The answer is found by calculating the normal net turnover, as income—as purchasing power in the pockets of consumers—of currency and demand bank deposits subject to check. The Federal Reserve Board has ascertained that such net turnover in so-called normal times, that is, in 1923–29, has been uniformly three times a year.

This is borne out by the table of velocity of income presented to your honorable committee by Governor Eccles in March, 1935; also, by the studies of Professor Pigou of England. In his Theory of Unemployment, Professor Pigou finds that the sum of cash and demand deposits passes about three times a year through a chain of production and again becomes income, or purchasing power in the hands of the people.

In calculating to evoke $54,000,000,000 of new income per year, therefore, the Treasury would have to issue one-third that amount,

or $18,000,000,000 of manufactured credit-money, not manufactured and owned by private groups with the slim 1 to 10 backing of their capital, but manufactured and owned by the nation with the permanent dollar-for-dollar backing of its flow of goods in trade.

To be sure, it would take a full year for this $54,000,000,000 of credit-money to be paid out at monthly intervals, as provided in the bill, and to gain the full momentum of a net turnover of three times as income; but thereafter, and for succeeding years, such injection of $18,000,000,000 of permanently circulating credit would attain the 3-to-1 turnover adequate for the monetary realization of $54,000,000,000 of income in goods and services. It would provide the credit permanently, within the permanently augmented capacity of industry for this $54,000,000,000 worth of goods and services on a stable price level, that is, without inflation of prices, for the reason that the added volume of goods would be evoked, already sold at retail at the discount, before the new credit-money was applied in reimbursal of the retailers. Naturally, as there would be an additional volume of goods and services to meet the additional monetary credit, it could not inflate the price level.

The bill provides that the appropriation of new monetary credit, as thus determined, shall be paid monthly to reimburse all dealers at retail for the full amount of the public discount allowed by them to customers as they purchase consumables; also, that it shall be paid, in part, at the rate of $5 monthly per capita, as a national consumers' dividend.

There would be, say, $9,000,000,000 budgeted for the support of the retail discount system, and $9,000.000,000 for the national consumers' dividend. The objective would be to get these sums turning over in trade, as new income, as rapidly as possible in order to evoke from the unused capacities of the Nation's industrial and trade facilities a required $54,000.000,000 of income per annum. Added to the $54,000,000,000 of income attained in 1935, it would assure in future a customary annual income of $95,000,000,000.

It would be accomplished, by this hypothesis, only by a very conservative reckoning of the unused and available capacity of industry. But if, by the monthly checking of the indexes of the rate of consumption, production, and industrial capacity, it should become manifest that industry in the fiscal year 1936–37 were easily capable of producing double what was allowed for in monetary terms, then the Commission and Treasury would be warranted in manufacturing yet another $18,000,000,000 of Treasury-manufactured monetary credit to support a fresh program for administration of the retail discount and national consumers' dividend during the fiscal year 1937–38.

And so on. As the steadily growing volume of orders poured into trade, and become backed by the more ample purchasing power of the people, we would see a rapid installation of new inventions and superior forms of organization, many of which have been withheld for years. With it there would be a rapid enlargement of the Nation's capacity to make and deliver wanted goods and services. Then with each newly attained margin of productive capacity, as demonstrated by the indexes, the National Credit Commission and the Treasury would be called upon to supply the public credits to

augment the nation's money system, not as banker-manufactured debt, but as owned by the people initially, free and clear; thus it would match their ownership of a permanently augmented capacity for producing more income in goods and services.

Conceivably the income velocity of money and demand bank deposits might establish a new ratio in this process. During the depression, as also in the depression of 1920–21, the customary rate of 3 to 1 was retarded. It went down to about 2 when Governor Eccles was testifying before you, and for 1935, I learned from the Federal Reserve Board yesterday, it was about 2, instead of 3, and a trifle over for the years of so-called prosperity. It might be expected to recover to 3 to 1, and to rise, even, to 4 to 1, or even higher, under the impetus of business done in the debt-freed system envisaged by this bill. To anticipate this there should be caution in emitting the first appropriations of monetary credit. The change in the rate of net turnover as income would be readily ascertainable, by comparing the rate of increase in national income with the rate of increase in the volume of cash and bank deposits subject to check. It could then readily be allowed for by the Treasury in providing the credits needed to match monetary income with real income in goods and services.

The bill takes opportunity, with the assumption of ownership of new credits by the Nation instead of by private groups, to stop their continued private manufacture altogether.

Thus in section 305 it declares that the "privilege of the commercial banking system to make loans and issue deposits against them on the basis of fractional reserves is hereby rescinded." This provision ends at once, and for all time, the menace of private monetary credit inflation.

Loaning by the banks is limited in this section to their capital and surplus, which is about $7,000,000,000, and the primary deposits in their possession. That is, they may renew the loans they have already made, or reissue them, but they must maintain against them 100 percent reserve, and there is a provision in the bill whereby they shall have 100 percent reserve. I suppose that that is a kind of condonation for what has been, but under the bill is to be, superseded, in order to satisfy the so-called vested interests of the banks and of the present system. Further, they may loan deposits held in trust for their depositors, making a service charge therefor. The detailed working of this provision is covered by Mr. Harvey. It suffices to point out that this provision adds to the brakes against public inflation, in the clauses limiting public issuance of monetary credit to ascertained capacity for meeting such credits with goods and services, a final brake against any private exploitation of the proposed new monetary system.

At the same time the provision of debt-free monetary credit, proportioned to the growing marginal capacity of industry and trade, is designed to remove the time lags that have slowed up the net, or income, turnover of money.

These time lags are many. Chief among them is the recurrent tendency of the private banking system, whose business is to lend money and whose interest it is to make it scarce and dear, to call in their loans and not to reissue them until the markets have tumbled

and they, or their friends, can pick up bargains from the deflated values of the Nation's assets.

The second great time-lag is that of corporate and individual savings.

Such savings are necessary to the individual and to business. Every one must save against a rainy day. Every concern should save a percentage of its earnings for upkeep against depreciation, and for future extensions and improvements. It is nevertheless true that whenever an individual or a corporation saves in this way, money is short-circuited back into production before it can be used in consumption. Being used twice or more times in production before it is used once in ultimate consumption—where the total charges of industry are accumulated in retail price and must be paid—the regular circuit flow of money, from producer to consumer and back again, is broken.

This process of saving and reinvesting, therefore, creates a time-lag which must be overcome in some way; otherwise the productive system will become top-heavy with investments adding to its capacity to produce goods which the people, as consumers, lack purchasing power to buy, and I hope that when Senator Owen comes before your committee tomorrow he will emphasize that with special information.

These two great monetary time lags, due to the cancelation of outstanding loans and their nonrenewal, and to corporate and individual savings, are overcome by the provisions of this bill.

It provides that future monetary credits shall not be manufactured by the bankers under the wholly unwarranted assumption that they own them. Instead, the credits are to be manufactured free of debt, as owned by the people who circulate them upon their own goods and services; hence they cannot be recalled from circulation by the will of private groups. By their public issuance directly to consumers, the greatest and most disturbing of the time lags in our money system is done away with.

With respect to the second time lag, that due to the plowing-back into business of individual and corporate savings, it is overcome, and is taken advantage of as well for the benefit of the whole people, largely through the provision for the retail discount.

As savings are plowed back into business, they serve to enlarge industrial capacity with new extensions and improvements of productive equipment. Under the prevailing restricted credit system by private groups this adds rapidly to the margin of unused capacity to produce goods for which there is no market, inasmuch as money is concentrated in capital undertakings as fast as it is short circuited from its natural flow into consumption as wages and dividends.

But under the bill, with each addition to the percentage of unused industrial capacity, a yet larger discount on retail price becomes successively warranted. This creates an automatic augmentation of purchasing power in the hands of consumers, which is balanced against the augmented productive capacity due to the plowing back of income.

Inasmuch as advancement in science and the arts is continuous, an enlarged capacity of the nation's industry always tends to become permanent, warranting a corresponding permanent enlargement of the sum of outstanding monetary credit.

Hence, under the bill the discounts dispensed to their customers by the retailers, in order to make their purchasing power adequate to the growing and permanent enlargements of capacity for wanted goods, are compensated to the retailers with the new and permanent additions of monetary credit; these may now circulate in balance with the augumented capacity.

Meanwhile the monetary credits already flowing in the system of exchange will circulate at an ascertained rate of turn-over as recurrent income, the index of which may be consulted to graduate the amount of further issues, as needed. It is mainly by the principles and processes which I have described that the bill, as described in its title, provides a system whereby Congress would wield its constitutional power to furnish monetary income to the people at a fixed and equitable purchasing power of the dollar, ample at all times to enable the people to buy wanted goods and services at full capacity of the industries and commercial facilities of the United States.

TIME LAGS

Mr. Clark. I do not understand these time lags, that one of the purposes of this bill is to correct. You state the money saved is short circuited directly into production. Do I understand you to mean that the money does not go into consumers' goods?

Mr. Brougham. Suppose that you take your Congressional salary and put it into a savings bank. How does that get into consumers' goods?

Mr. Clark. But suppose that I take $1,000 out of my salary, and save it and go down and buy a newly issued bond in the A corporation. That corporation takes my $1,000 that I have bought this bond with, and it immediately, it is true, enlarges its productive capacity, but in doing that it pays its labor, and the labor spends the money for food, clothing, and shelter, and in doing that it buys more materials, which in turn are manufactured by factories employing more labor, and ultimately it seems to me that all money saved necessarily does get into consumers' goods, although the route may be a little bit longer.

Mr. Brougham. Yes, that is true, but, so far as you are concerned, you have taken money out of production and put it back into production before it has been used in consumption.

Mr. Clark. Yes, but the time lag may be instantaneous. There may be no lag. I might save $1,000 today out of a transaction and I would buy a bond with it tomorrow, and it may be that the factory that issued the bond immediately uses it, and do you mean that if I went down to spend that for shoes and clothing, it would circulate faster than if I put it into a productive enterprise?

Mr. Brougham. That would be an uninterrupted flow from producer to consumer, used by consumer and back to the producer.

Mr. Clark. Have you statistics or anything to show how much that lag is?

Mr. Brougham. Yes, I cited statistics. The Government since 1930 has injected into our demand bank deposit system 16 billion of new money manufactured by the banks, which the Government has borrowed from the banks. That money has turned over not at the

usual rate, three times a year, as income, but at the rate of two times a year as income. That is where your time lag is, the reason being that a large part of that money did not go directly to the people on the relief rolls, and even to those people on the relief rolls to whom it went, it went in a much diminished volume as compared with their income during 1929. It went, in fact, on less than a subsistence basis for them, as we reckon subsistence equal to a family budget of health and decency. A large part of it went to the payment of organizations, not individuals, for Government contracts, public works.

Mr. CLARK. Well, of course, they put it into consumers' channels.

Mr. BROUGHAM. Partly, but over 50 percent they put into added production, and it went to other organizations, not individuals.

Mr. CLARK. Do you mean increased plant facilities?

Mr. BROUGHAM. Yes; they increased their plant facilities, and people bought new raw material, they bought new machinery, and they paid for the upkeep of their machinery, and in that way it distributed only about 50 percent directly, or perhaps less, to their employees as direct purchasing power.

Mr. CLARK. I thought that during these last 5 years that the money did not go to increase productive facilities, but merely to put in operation those facilities already in existence, which were only being employed, say, about 50 percent.

Mr. BROUGHAM. Our entire emergency Public Works Program is for new facilities.

Mr. CLARK. For new materials to be produced by plants which are not running at capacity?

Mr. BROUGHAM. It was for raw materials, what they call overhead charges which are paid to organizations, not individuals.

Let me put it in another way. If it had gone directly to consumers, they would have bought consumption goods with it, but our entire Public Works Program went for things not to eat or wear or to shelter ourselves with, and that, so far as the consumers were concerned, represents a dead loss to them. They did not get it. It went into public consumption over a long period of years in durable public goods, and there is your time lag, and there is the explanation of the difference between a three-time net turn-over of new money as income and the net turn-over of only two times a year which was actually realized by this Government emergency program of borrowing 16 billion dollars and spending it as the Government did.

Mr. GOLDSBOROUGH. Are you through?

Mr. CLARK. Yes; I guess I am through, but I do not understand it.

QUESTIONS

Mr. HOLLISTER. How can the Government spend any money that it does not raise by taxes or borrowing?

Mr. BROUGHAM. How can the banks spend any money!

Mr. HOLLISTER. I did not ask you that. I am asking you how the Government could spend any money that it does not raise by taxation or borrowing. You cannot spend any money unless you earn it or borrow it, and I cannot. How can the Government?

Mr. BROUGHAM. You and I cannot, but the Government, acting for the people as a whole, can do it, and in this country, by law, private banking groups of individuals can do it.

Mr. HOLLISTER. But how can the Government do it without raising the money by taxes?

Mr. BROUGHAM. By employing the process of the banks, their manufacturing methods.

Mr. HOLLISTER. Do you mean that they create something out of thin air?

Mr. BROUGHAM. If you say that the banks create it out of thin air, then the Government does; but in fact neither the banks nor the Government create it out of thin air. So far as the banks are concerned, they do not put any of their own money into it. They do not draw it out of their capital and surplus, and capital and surplus are all that they do put into the "kitty." They manufacture their credit-money out of the productive capacity of the American people, which is not their own capacity, and the Government passes it out to the American people in satisfaction of Government contracts, and passes it out to Government employees.

Mr. HOLLISTER. Let us take a specific situation. You and I organize a bank. In doing it, we put some money into it, and take stock. That is check money, but it is something that we had to earn.

Mr. BROUGHAM. We put in currency in this case.

Mr. HOLLISTER. We do not always do it.

Mr. BROUGHAM. Yes; but we have to have currency or the equivalent.

Mr. HOLLISTER. I am talking about starting a bank.

Mr. BROUGHAM. And I am talking about starting a bank. You have to have it.

Mr. HOLLISTER. We do not have to have currency.

Mr. BROUGHAM. Yes; you have to have the ability to draw 100 percent of your capital in currency before you can start your bank.

Mr. HOLLISTER. Under existing law?

Mr. BROUGHAM. Yes, sir.

Mr. HOLLISTER. Do you mean that I cannot deposit a check and start a bank that way, a new account?

Mr. BROUGHAM. The bankers must have an account under the requirements of the Government for 100 percent of its capital and surplus in currency.

Mr. HOLLISTER. It must have it available, but that currency we can get anywhere.

Mr. BROUGHAM. You can get it. There are ways in which the physical piling up of that amount of currency can be avoided, but you will have to have it.

Mr. HOLLISTER. All right. Now we have the bank organized, and we get deposits from people, do we not?

Mr. BROUGHAM. Yes.

Mr. HOLLISTER. The drug-store man comes in and deposits something that he has earned, and the laborer comes in and deposits the little that he can save, and we get a certain amount in the bank in deposits. Now we lend that out, do we not?

Mr. BROUGHAM. No; you do not. You do not lend a cent.

Mr. HOLLISTER. What do we lend?

Mr. BROUGHAM. A customer of the bank goes to the bank and says, I want $1,000, and I have here $1,500 worth of securities."

Mr. HOLLISTER. But suppose that he just gets it on his face?

Mr. BROUGHAM. In either case the banker turns to his bookkeeper and says, "Mark up Mr. Jones' account $1,000", but he has not touched a cent of his capital and surplus or of the depositors' money.

Mr. HOLLISTER. But suppose he does not deposit it. Suppose that the borrower is buying a house?

Mr. BROUGHAM. Does he take $1,000 of his depositors' money and lend it? If so, how, then, can the depositors draw their own money?

Mr. HOLLISTER. They can not draw it unless the bank has enough in the bank to pay it.

Mr. BROUGHAM. There is another way. The bank can manufacture it.

Mr. HOLLISTER. I am not asking you whether the bank can manufacture it. I am giving you a specific situation, where a man borrows $1,000 to place it in a house. He owes the bank $1,000, and the bank, in turn owes the depositors $1,000. If the depositors want their money, and the bank cannot produce it by some other resources, it asks the man to pay back his $1,000.

Mr. BROUGHAM. If the depositor asks in that instance for $1,000 in cash, I admit that much.

Mr. HOLLISTER. That is as far as I have gone.

Mr. BROUGHAM. Now——

Mr. HOLLISTER. Let me finish. That can be carried on by six or seven different transactions, can it not?

Mr. BROUGHAM. Certainly.

Mr. HOLLISTER. And the depositors' money is taken in, and is perhaps invested or loaned out to borrowers. Now, is it your plan that the Government shall do exactly that same thing? If so, the Government must accept deposits in order to have something to lend out.

Mr. BROUGHAM. No. In the private banking system, it is a case of manufacturing money which the banks do not borrow, and which they do not take out of capital and surplus.

Mr. HOLLISTER. But in my case, is there any manufactured money there?

Mr. BROUGHAM. Yes.

Mr. HOLLISTER. Show me where there is any manufactured money under the plan that I just gave you.

Mr. BROUGHAM. It is possible that there is not any there, but if you had taken a typical case, a case which occurs every day, and in more than 99 percent of the cases, certainly, you would turn to your bookkeeper and say, "Mark up his account $1,000," and there has not been any currency or cash paid out, no draft upon the bank's capital or surplus. There has been simply marked up, in a given ratio of the bank's capital and surplus, an amount of newly manufactured money which then begins to circulate as soon as your borrower begins to draw checks against it.

Mr. HOLLISTER. There is a credit given to that man for the amount that he has borrowed, and he can draw it out in currency if he wishes to.

Mr. Brougham. Yes, he can draw it out in currency if he wishes to, but——

Mr. Hollister. If he does not wish to, he can check against it.

Mr. Brougham. Yes, he can check against it, and then it circulates in the banking system, and is cleared in the clearing system.

Mr. Hollister. In the next few days?

Mr. Brougham. In the next few days, without touching the capital or surplus of any one of the banks concerned in these operations. Therefore, it is constantly a case of manufactured money.

Mr. Hollister. But it is all based upon somebody's deposits.

Mr. Brougham. No.

Mr. Hollister. And if the depositor demands it, the thing begins to contract.

Mr. Brougham. Which claims of the depositor are satisfied with new evidences of debt, and the debt itself which the bank owes is never paid.

Mr. Hollister. That is not quite so.

Mr. Brougham. It is, except in the case of February and March 1933, when the banks were actually asked to pay these debt claims, and they could not, and they closed their doors.

Mr. Hollister. Of course, everybody knows that a bank business is based on credit, and there is always the possibility of depositors calling for their money. The only problem is to see that your system does not overexpand. Isn't that right?

Mr. Brougham. There is always the possibility of the customer demanding cash for the full amount of his loan.

Mr. Hollister. And he has a right to.

Mr. Brougham. He has a right to. If he does, however, it comes right back to the bank the next day.

Mr. Hollister. Why?

Mr. Brougham. It goes into the hands of the people to whom he pays it, and they deposit it. If he asks for cash, it is to pay out cash, and the cash immediately goes back to the bank.

Mr. Hollister. But there is nothing to keep him from holding the cash if he wants to. He may be going on a trip, and then it would not get back to the bank so soon. So, as it works out, we have enough currency outstanding today, have we not?

Mr. Brougham. Yes.

Mr. Hollister. I still go back to my question, as to how the Government is going to be able to spend anything that it has not received from somebody in the nature of a deposit, or borrowed, or raised in taxes.

Mr. Brougham. Here are the banks who have manufactured new credit money which they did not have before, upon certain securities which were not really the basis of that money.

Mr. Hollister. But you are stating what the banks do. I am asking you how the Government will do it.

Mr. Brougham. And I am trying to picture it in your mind.

Mr. Hollister. Do you mean that the Government would be going entirely into the banking business?

Mr. Brougham. No indeed. The Government goes into the credit business, which is a very different thing. It operates according to the first article of the Constitution, in order to furnish the people their

money, in this case credit money, and in this case the Government manufactures the money not as the banks do, upon a legal warrant evidenced by securities pledged, but upon a calculated capacity of industries and of the people to absorb that money in trade and in new production—on which the money is really based, including all of that which the banks manufacture.

Mr. HOLLISTER. I still do not follow you. The Government, we will say, has to spend $1,000,000,000 for relief. Now, let us assume that the Government has not got $1,000,000,000 to spend for relief. The only way that it can spend that is by borrowing it, unless it raises it in taxes.

Mr. BROUGHAM. No; that is not the only way, but it is the only way that it does it.

Mr. HOLLISTER. But how else could it do it?

Mr. BROUGHAM. It can do it, instead of going to the banks and asking the banks to manufacture it——

Mr. HOLLISTER. Does it go to the banks and ask the banks to manufacture it today?

Mr. BROUGHAM. Certainly.

Mr. HOLLISTER. I thought that the Government sold bonds.

Mr. BROUGHAM. Certainly it does. That is the way it does. It says to the banks, "If you will manufacture this credit money out of something that you have not got"—in effect it says that, marking up our account, and utilizing the clearing system and canceling the checks of the Government in the way that I have described, without drawing upon their capital and surplus—"then the Government will give you the bank, bonds, and tax warrants against the American people with which to satisfy that." Why should not the Government, if it wants to back this new money with bonds, do this: Why does it not keep the bonds itself and manufacture the money, and say, "Here are these bonds behind this money, and we will pay out drafts on the Treasury for the expenses of the Government."

Mr. HOLLISTER. Drafts on what? Out of the Treasury on what? Based on what?

Mr. BROUGHAM. Based upon the taxing power in this case, because I had supposed that they would put the bonds behind it and hold those bonds themselves.

Mr. HOLLISTER. What do they pay out, then?

Mr. BROUGHAM. They are to pay out credits in every respect similar to the credits furnished them by the private groups.

Mr. HOLLISTER. The equivalent of currency?

Mr. BROUGHAM. The equivalent of the credits which are handed to them by the banks in exchange for these bonds today.

Mr. HOLLISTER. But supposing that the Government, instead of selling the bonds to the banks, sells them direct to the people. Is there any difference, then?

Mr. BROUGHAM. There is a difference in what takes place; yes. There is no difference in the matter of debt. Of course, the Government does not have to sell the bonds at all. It can put the bonds behind the circulation of new credits which it manufactures, holding bonds as a surety against those credits.

Mr. HOLLISTER. I am trying to get at what the people will be paid with. Is it credit?

Mr. BROUGHAM. Certainly. It is credit.

Mr. HOLLISTER. Are they going to be paid with currency which they can use in any store?

Mr. BROUGHAM. Oh, yes..

Mr. HOLLISTER. Which is——

Mr. BROUGHAM (interposing). Credit is exchangeable for currency. It is exactly the same kind of credit that the banks now furnish to the Government.

Mr. HOLLISTER. I am trying to get what the Government will do under this set-up that I referred to. It has to give out $1,000,000,000 for relief, we will say, in the next 2 months. What will they give for relief funds, credit or currency?

Mr. BROUGHAM. Either one.

Mr. HOLLISTER. Are they interchangeable?

Mr. BROUGHAM. Certainly.

Mr. HOLLISTER. Will it be a tangible something?

Mr. BROUGHAM. It can be, if they want it so. We have the means already provided under our laws, whereby they can exchange the Government checks for currency.

Mr. HOLLISTER. And it costs the Government nothing?

Mr. BROUGHAM. It costs the Government nothing. Why should the Government pay for its own credit?

Mr. HOLLISTER. That is exactly where you and I differ. Has the Government any credit except that which it can raise by taxation or borrowing?

Mr. BROUGHAM. Yes; as representative of the entire wealth of our entire Nation.

Mr. HOLLISTER. Does the Government own the wealth of the American Nation?

Mr. BROUGHAM. In a representative capacity, it does.

Mr. HOLLISTER. In any capacity whatsoever, does the Government own your wealth and my wealth?

Mr. BROUGHAM. It takes it out of our pockets when it taxes us. Does it not own what it taxes us?

Mr. HOLLISTER. After it gets it, but not beforehand.

Mr. BROUGHAM. It owns it beforehand, and collects it if it can.

Mr. HOLLISTER. You think so?

Mr. BROUGHAM. Certainly.

Mr. HOLLISTER. This whole scheme is based on the theory that all of the wealth in this country is owned by the Government?

Mr. BROUGHAM. It is owned by the Government in a fiduciary capacity for the American people.

Mr. HOLLISTER. You mean that everybody's individual wealth in this country is owned by the Government, for the benefit of all of the people?

Mr. BROUGHAM. Certainly not, but under the welfare clause of the Constitution, and other clauses, the Government can take it, can take half or three-fourths of the amount as an income tax.

Mr. HOLLISTER. You say that the Government can take the wealth of an individual under the Constitution?

Mr. BROUGHAM. It could take, conceivably, all of the wealth.

Mr. HOLLISTER. Did you ever read the fifth amendment?

Mr. BROUGHAM. The fifth amendment has not been construed—I am not a lawyer, but the fifth amendment has not been construed to prevent the Government from taking a large percentage.

Mr. HOLLISTER. It has been construed several hundred times by the Federal courts.

Mr. BROUGHAM. It certainly has not been construed to prevent the Government taking as income tax a large percentage of the income of an individual.

Mr. HOLLISTER. I asked you if you had read the fifth amendment, and you say that it has not been construed.

Mr. BROUGHAM. Conceivably to take the property of individuals, but the Government does so in time of war.

Mr. HOLLISTER. That is under the war power.

Mr. BROUGHAM. Yes, sir; the theory is that the Government represents the wealth in a fiduciary capacity of the entire American people.

Mr. HOLLISTER. That may be the theory, but it is not the Constitution.

Mr. BROUGHAM. And it makes that the backing of this newly manufactured credit money, which is better backing than any group of individuals who back their money.

Mr. HOLLISTER. The idea of this is that all of the wealth of the country belongs to the Government?

Mr. BROUGHAM. In a representative sense, it does.

Mr. HOLLISTER. And you say that the Government may take it at any time?

Mr. BROUGHAM. Under certain circumstances. Of course, the Government is a government of delegated powers, and there are reserved powers, and you have spoken of one of them. In ordinary cases, the Government cannot deprive a man of his life, liberty, or property——

Mr. HOLLISTER. Without due process of law?

Mr. BROUGHAM. Without due process of law.

Mr. GOLDSBOROUGH. Mr. Brougham, let us assume, if we can, a new country, where individuals own property. It has nothing but a barter system. Who can furnish these individuals with a monetary system, except the Government itself?

Mr. BROUGHAM. That would be the natural mode of furnishing the money system for a country in that situation. As an historical matter, private individuals have arrogated to themselves that power and have exercised it, to provide the money system, in default of the Government doing so.

Mr. GOLDSBOROUGH. Your idea is that society should furnish itself with its own medium of exchange?

Mr. BROUGHAM. Inasmuch as society owns collectively all of the wealth and instrumentalities for producing wealth on which money should logically be based.

Mr. GOLDSBOROUGH. And your view is, as I understand it, that money is entirely separate from banking?

Mr. BROUGHAM. It is entirely separate from banking; yes, sir. Banking is a matter of keeping accounts, bookkeeping, clearing checks, handling trust accounts, and it should be put entirely upon a service basis and paid for as such.

Mr. WILLIAMS. As I understand your central idea, it is to increase the purchasing power of the country?

Mr. BROUGHAM. Yes, sir.

Mr. WILLIAMS. That is the central idea, as I understand your statement?

Mr. BROUGHAM. To increase the purchasing power of the country in proportion to the wealth of the country, as evocable into income.

Mr. WILLIAMS. How will you increase the purchasing power of the different individuals?

Mr. BROUGHAM. By increasing the goods tickets, and that is all that money is.

Mr. WILLIAMS. Let me see if I understand you. Of course, you can increase the purchasing power of the consuming public in general by having them all at work and receiving wages, having something with which to buy food, shelter, and clothing. That is one way, is it not? If everybody had employment at a decent living wage, the productive capacity of the country would, of course, be increased to its full capacity, and there would be a demand for the goods and everybody would have the money to pay for them.

Mr. BROUGHAM. If that were so.

Mr. WILLIAMS. If that were so. That is the only way that we have been doing it. Now, how else can we do it?

Mr. BROUGHAM. Of course, we have not been doing it.

Mr. WILLIAMS. True, we have had all of these people out of employment, but you propose to put all people to work at full capacity, all of the employable people, and what do you figure should be their income annually?

Mr. BROUGHAM. I figure that their income should be about two hundred billions annually, but I did not say that.

Mr. WILLIAMS. I mean per individual, what should be the average income?

Mr. BROUGHAM. I have not worked it out, but there would be 120,000,000 people to whom would be distributed two hundred billions of income.

Mr. WILLIAMS. About $1,600 apiece?

Mr. BROUGHAM. Yes.

Mr. WILLIAMS. And that would include everybody.

Mr. BROUGHAM. Yes.

Mr. WILLIAMS. What percentage of the families today have an income below $2,500 annually? I refer to families now, not individuals.

Mr. BROUGHAM. I can tell you exactly by referring to a memorandum which I have here, if you will allow me a moment.

This is the testimony of Prof. Harold G. Moulton, of the Brookings Institution, and it appears in Fortune Magazine for November 1935.

> Families having incomes of $2,500 a year, or less, spend practically all their income for bare necessities.

Mr. WILLIAMS. What is the percentage of the whole?

Mr. BROUGHAM. May I be permitted to read right through, because this is germane to your question?

> These families are therefore without conveniences or luxuries. Since even in 1929 there were almost 25,000,000 such families, and since 25,000,000 families constitute approximately 70 percent of the total population, it is evident that

almost three-quarters of the population were without, and were therefore potential buyers of, luxuries and conveniences. And since 12,000,000 families had incomes under $1,000, it is probable that many of these people were also potential buyers of unbought necessities as well.

The same point may be made in reversed terms, by saying that in 1929 only 2,000,000 families, or 8 percent, of the population, had incomes over $5,000, and only 600,000 families, or 2.3 percent, had incomes in excess of $10,000. It was to this meager 8 percent that most of the conveniences and luxuries manufactured in America in 1929 had to be sold, if they were sold at all.

So far are we, then, from suffering from excess plant that a 75 percent increase in production would be necessary in order to supply the entire population with the goods which the Department of Agriculture considers essential to a "reasonable" standard of living.

Mr. WILLIAMS. Your idea, then, is that the family ought to have $8,000?

Mr. BROUGHAM. Not that the family ought to have any given amount, except such as is permitted by the capacity of the Nation as income.

Mr. WILLIAMS. That would be the result of the figures that you gave a while ago.

Mr. BROUGHAM. About $6,400 per family. About $6,400, I judge, per family of four, if it were $1,600 apiece.

Mr. WILLIAMS. But I think that you miscalculated that. For a family of four or five, it would run about $7,000 or $8,000.

Mr. BROUGHAM. That might be. We should expect to see notable increases in income, if the physical energies of the Nation were released.

Mr. WILLIAMS. You are going to give, as I understand your theory, credit to these individuals who now have no credit or work?

Mr. BROUGHAM. We would do that by means of the proposal for the national consumers' dividend. Through the discount on price, we would exercise a control of the price level, so that those who received the dividend, when they came to market, would have the benefit of that discount upon the existing price level.

Mr. WILLIAMS. You would give them that discount before they went to work, so that they could have something to eat?

Mr. BROUGHAM. Yes. They could spend their relief money in that way, or, if they got it in the form of a $5 dividend per month, they could spend that before they went to work, for the reason that we have not only production by human beings in this country, but we have, in multiple ratio, production by our power machinery.

Mr. WILLIAMS. Undoubtedly so, but the ultimate purpose of your plan is to put everybody to work, and to increase the purchasing power?

Mr. BROUGHAM. I do not emphasize putting them to work, because the function of industry is not to produce work, but to produce goods and services in increasing measure by means of power machinery.

Mr. WILLIAMS. Your plan is to just give them credit, and to continue the dole system forever?

Mr. BROUGHAM. I hope that you won't be so hasty as that.

Mr. WILLIAMS. Is not that so?

Mr. BROUGHAM. No, sir. It would probably mean, if this were put into practice, this method of issuing credits, that everybody would have ample work for years to come, for the very reason that

while their needs are very rapidly satisfied, their wants are not satisfied, and they would be putting themselves to work for years to come to supply the conveniences and luxuries which they have been without for so many years.

Mr. Williams. But you would give them credit to start with, to buy food, shelter, and clothing?

Mr. Brougham. We would start it that way. We would start it as consumption credits rather than as production credits, for this reason, and it is a very sound business reason, that all new money, all newly manufactured credits, are now emitted at the production end of our system, in the form of new loans, to men who come to the bank and say, "I can produce that much more goods, and I believe that I can sell them." Therefore, the money issued at the productive end of the cycle speculatively assumes that it is going to be employed for production that can be sold. We propose, instead, that it shall be issued at the consumption end of the cycle, after the goods are sold, after the wants of the people have been made manifest in actual purchases, in reimbursement to the retailers who have sold the goods, not speculatively. The goods have been sold in increased volume before these credits are applied, and in such a way as to draw upon the entire capacity of industry, through the various channels of production and trade in repeat orders.

Mr. Williams. They receive the credit first?

Mr. Brougham. They receive the credit first, for what they have collectively already produced in capital-goods capacity and sold in consumptive goods, too, in the way of income.

Mr. Williams. But those who produce and those who do not produce receive credit just the same?

Mr. Brougham. The Lord sends his rain upon the just and unjust—is that what you mean?

Mr. Williams. Is that right?

Mr. Brougham. They receive it for nothing—rather they lend it to themselves. The American people, if you want to put it that way, lend it to themselves; they give it to themselves. We take it out of the hands of the bankers who manufacture it and have it for nothing, and we give it to the American people who have all of these different capacities, and we say, "Since you have all of these capacities, you own the credit power that inheres in these capacities, and this credit belongs to you because you already have these capacities, and the bankers have not those capacities,"—and yet the bankers manufacture that money, and own it under our law!

Mr. Williams. I cannot see the practical application of it, myself. It is beyond me.

Mr. Goldsborough. Mr. Brougham, I think that maybe in the haste of answering a skilled cross-examiner you have made statements that possibly were not intended.

Let us assume that under this bill we are operating under a discount of 25 percent. A man goes to a store, and there is a pair of shoes that sells for $4. He gets the shoes for $3. That is all that they cost him under our plan, is it not?

Mr. Brougham. Yes.

Mr. Goldsborough. But he has to have the $3.

Mr. Brougham. Yes, sir.

Mr. WILLIAMS. Let me interject a question, just for information. Suppose that he is one of these unemployed who has no money at all?

Mr. GOLDSBOROUGH. I am coming to that.

Mr. WILLIAMS. That is the point in my mind. How will he get the credit?

Mr. GOLDSBOROUGH. He cannot get it under this bill.

Mr. WILLIAMS. I am asking how the man who has no money at all will be benefited under this plan.

Mr. GOLDSBOROUGH. Under this plan, if an individual has no money at all, there is a provision in the bill which provides for $5 a month national dividend. I do not think it is essential for the workability of the bill.

As I said before, he would still have to have his $3.

Mr. BROUGHAM. Yes, sir.

Mr. GOLDSBOROUGH. And, presumably, he would have to earn his $3.

Mr. BROUGHAM. Yes.

Mr. GOLDSBOROUGH. In other words, the purpose of this legislation is not to put anybody on a dole?

Mr. BROUGHAM. No, indeed.

Mr. GOLDSBOROUGH. It is to make the money which he earns go further than it otherwise would go?

Mr. BROUGHAM. That is quite right.

Mr. GOLDSBOROUGH. And therefore it increases the sales of the retailer, the sales of the wholesaler, the sales of the manufacturer, the sales of the prime producer, and it therefore increases the number of those who can be employed in the various occupations, so that in turn they have purchasing power?

Mr. BROUGHAM. Correct.

Mr. GOLDSBOROUGH. Which they can translate into the purchase of wanted goods? Isn't that correct?

Mr. BROUGHAM. That is all true, Mr. Chairman, and this, in addition, is true, that what we are proposing would be the means of doing more completely what has already been done by American business, in stepping-up partial production to capacity production. It has been done on a great scale. It has been done by this process of discount upon price by all of the great organizations of this country that do a national business. It was instituted very largely by the example of Henry Ford, and they have repeatedly put down the price of their goods by a price discount to the consumers, sometimes below their cost of production, in order to step-up into the economies of a larger-scale production, and then, on the basis of those economies, maintained the price at the reduced discount and made a profit.

This is a proposal whereby the Nation as a whole may do precisely that thing. We might just as well object that Henry Ford is giving a largess to the American people, giving them something for nothing. He put the price of the model A Ford down, expecting to lose on his price for several hundred thousand cars before he made a cent. The American people were not beggars because Henry Ford put down his price below cost. He did it in order to achieve a new system of economy, which increased permanently the wealth

of the American people so far as the making of cars is concerned, and on those economies the American people reaped a discount, an actual credit which was given to them, not as beggars, but as a result of an increase in capacity due to the inventive genius of the American people.

Since we are as a Nation, with our 48 States, a complete customs union, without tariff barriers, in that position of large-scale production, we can as a nation and collectively, if Congress will do its part, enable the Nation to step up into a capacity production whereby these economies are achieved, and the American people will have permanently a lowered price, equivalent to a discounted retail price, and the credits issued in bridging the gap from an economy of partial production at an enormous mechanical disadvantage to an economy of full-capacity, large-scale production. This system of credits may be based permanently upon these permanent economies that are achieved by the transition.

THE ISSUANCE OF CREDITS

Mr. Clark. I do not want to take undue time, but I want to get back to the issuance of these credits or currency by the Government in lieu of selling bonds to the bankers.

Mr. Brougham. Yes.

Mr. Clark. Just briefly, we had that out here in the committee room rather thoroughly last year, particularly in a colloquy between the now chairman and Governor Eccles and Dr. Goldenweiser, who is the economist for the Federal Reserve Board, and the statement was made, either by Governor Eccles or by Dr. Goldenweiser, or both, that there was no particular reason why the Government should not issue its own currency or checks against bonds.

Mr. Brougham. I recall that testimony.

Mr. Clark. Except that the costs of printing, the costs of handling the transaction, would mean that they would save practically nothing. Are you familiar with that?

Mr. Brougham. Yes; I remember that. In other words, it was really cheaper to allow the system to do it under the existing money rates.

Mr. Clark. The cost of printing, and all that sort of thing, would come within a very small decimal of what they had to pay to the banks.

Mr. Brougham. Yes, sir.

Mr. Clark. I was just wondering what you had to say about that. I think that there is no inherent reason why the Government, if it provides a system of amortization so that it will be sure to get back by taxes the amount of money that it issues, which, of course, is the trouble with the issuance of any money, without something amortized——

Mr. Brougham. There is nothing against that.

Mr. Clark. What advantage would the Government gain if it is almost as cheap to sell it to the banks?

Mr. Brougham. I can answer your question a little superficially by saying that Governor Eccles was speaking of a condition in the money market which does not often obtain. But the real answer to Governor Eccles is that we have a money system which is main-

tained by private groups that have the license to manufacture credits that serve as money for the American people, and to manufacture them in such a way that they can only be put in circulation as added debt, which gives its private manufacturers the power to withdraw that money from our economy, in satisfaction of the interests of their private stockholders, at times when it is of enormous consequence to the American people as a whole to have that money retained in the system and operating for their system of exchange of goods and services.

That is the proper answer to Governor Eccles for what is urged in the way of a special plea——

Mr. Clark. And I think it is a very pertinent answer. Of course, in the issuance of credits by the Government or by the private banks, they must have a set-up, a simultaneous mechanism, to retire those credits by taxes.

Mr. Brougham. We could set up that mechanism, and, in fact, we have done it in title 4 of this bill, so that it could be constantly retired and so that the American people might prove to themselves that they were able to retire any credits that they issued under this system. I believe that they would not actually come to doing that, because under our system of issuance and retirement at stated intervals, if the credits or the money that is retired is not immediately renewed, then we have a cataclysm such as we had in 1929. Why not, so long as we have statistical evidence that we can retire it, leave it permanently outstanding, so long as it is balanced against a permanent volume of goods in trade? But I have no objection to our retiring it by the tax method, every cent that is issued under this system, provided that we have a method of reissuing as the volume of trade and the increased volume of trade requires.

Mr. Clark. And if we do not provide a machinism for the retirement of anything issued by the Government, whether it be currency, credits, or bonds, then you always have the human frailty of wanting to issue more all the time in order to avoid the taxation.

CHANGES IN RETAIL DISCOUNT RATE

Mr. Brougham. All right; there is no objection to it.

Mr. Spence. The retail discount rate would vary from time to time, as I understand it, under this bill?

Mr. Brougham. It would vary from time to time, according to the indexes of the rate of consumption and the rate of production and of the industrial capacity for wanted goods; and as that capacity increased, and increased with satisfactory evidence that it would be permanent, we might have annother issue to be applied in the same way, but only as it was demonstrated by the indexes that we had that capacity as a permanent feature of our productive system, being satisfied that our volume of production was permanently increased.

Mr. Spence. Would you not anticipate that there would be a change from day to day?

Mr. Brougham. No; we would not anticipate the change. We would first demonstrate that the capacity actually existed, and then when we voted the credit, we would withhold that credit until the

goods were sold in added volume, according to that added capacity, before any credit had been applied.

Mr. Spence. And that is taken care of by the credit certificates?

Mr. Brougham. Yes, sir; that is taken care of by the credit certificates which are issued only upon evidence of capacity.

RETIREMENT OF CREDIT CERTIFICATES

Mr. Spence. How are the credit certificates to be retired?

Mr. Brougham. By a sinking fund and by other measures to which title 4 is entirely devoted.

Mr. Spence. Do you anticipate that those credit certificates will amount to billions of dollars, say, eighteen billions in the first year?

Mr. Brougham. Well, I should say about thirty-six billions would be the real figure. I cut it down to eighteen billions.

Mr. Spence. And they would be issued against bonds that you say the Government would issue?

Mr. Brougham. Yes; the Government could issue them and hold them.

Mr. Spence. Whom would the bonds be payable to? Would the Government make them payable to itself?

Mr. Brougham. How is a Government bond worded? Is it worded to any individual?

Mr. Spence. It is made payable to bearer.

Mr. Brougham. Then the Government might itself be the bearer—payable to itself.

Mr. Spence. The demand for those bonds, then, would not reflect at all on the credit of the Government, because the Government can print them day and night and issue its certificates against them?

Mr. Brougham. I would not say day and night. Day and night would not be the criterion by which we shall issue the bonds. The criterion would be the available unused capacity of the industries of the country.

Mr. Spence. But it would not be based upon the credit of the Government, either?

Mr. Brougham. The real credit of the Government is the real credit of the American people, which consists in their capacity to produce, and it would be upon that security that these certificates would be issued. There is no other credit in the world than the capacity to produce and deliver goods.

Mr. Spence. In the last analysis, these certificates would be issued merely on the faith and credit of the Government?

Mr. Brougham. And its taxing power.

Mr. Spence. And, as to the printing of the bonds behind these certificates, they would be retained by the Government?

Mr. Brougham. I have no objection to the Government issuing the bonds and being the bearer, and that is all that it would be. The bonds are only a visible symbol of the taxing power of the the Government, which is there at any time. The Government can at any time retire these certificates, and there would be behind them the taxing power of the Government and the entire power of the American people to produce and deliver goods.

Mr. Clark. The bond would be just a control mechanism.

Mr. SPENCE. These certificates would represent exactly the same thing, whether the bonds were printed by the Governoment or not.

Mr. BROUGHAM. Certainly; because the taxing power is behind them all the time.

Mr. SPENCE. So that there would not be any use at all in printing any bonds.

Mr. BROUGHAM. I do not see any use, except if people hollered for them they might have them.

Mr. CLARK. Well, there would be a sinking fund set up?

Mr. BROUGHAM. We have the sinking fund there.

BILLS CONTRASTED

Mr. CLARK. May I ask just one question more?

Mr. GOLDSBOROUGH. Proceed.

Mr. CLARK. Mr. Chairman, how does this bill differ in its essential aspects from your previous money bill which you had here last year?

Mr. GOLDSBOROUGH. This is the first bill that I ever introduced based on the theory that society is entitled to receive everything that society can produce, and the assumption in the method employed is that the discount of retail prices for goods that go directly to the consumer can be regulated in such a way as to maintain the country at 100 percent productive capacity.

Mr. CLARK. It incorporates the essential ideas of your previous bill and then goes beyond it?

Mr. GOLDSBOROUGH. And then goes beyond it.

The committee will adjourn until half past 10 tomorrow morning. At half past 10 Senator Owen will be heard. Mr. Walter Hampden, from the New Economics group, of New York, is here, and I do not know whether there will be any further witnesses. If necessary the committee will continue in session tomorrow afternoon.

Mr. Brougham, we are very grateful to you for your contribution. We all enjoyed it very much. I am sure that you gave the committee very distinct information.

Mr. Shibley, have you any views on this bill that you would like to express?

Mr. SHIBLEY. I am not quite ready yet.

(Thereupon, at 5 p. m., an adjournment was taken until Tuesday morning, Apr. 28, 1936, at 10:30 a. m.)

PERMANENT DISTRIBUTION OF NATIONAL PRODUCTION

TUESDAY, APRIL 28, 1936

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10:43 a. m., Hon. T. Alan Goldsborough presiding.

Mr. Goldsborough. Senator Owen, we would be very glad to hear you, sir.

STATEMENT OF HON. ROBERT L. OWEN, CHAIRMAN OF SENATE BANKING AND CURRENCY COMMITTEE DURING THE WILSON LIBERAL GOVERNMENT

Mr. Owen. Mr. Chairman and gentlemen of the committee, the bill which is now under consideration provides for the use of social credit on a large scale. The term "social credit" is not, I believe, understood as widely through the country as it should be. It means, of course, the use of the credit to which society as a whole is entitled by inheritance, by creative power, and through the production of the great mass of the people who produce everything that is called wealth in this country, and it is proposed by this bill to use the sovereign power of the Government of the United States to expand credit money to whatever extent is necessary, by furnishing to the consumers an additional means with which to buy the products of labor, thereby to adequately stimulate the productive process until it shall be restored not only to what it was before we had this great depression, but it should be restored to what it ought to be when people are free to labor, to produce the things that people want, as they will do when they are furnished by their Government with a dependable measure of value. The need is for an adequate medium of exchange, in the transaction of the processes of production, transportation, and distribution to the consumer, remembering always that the producers and the consumers are the same people, each one filling his own particular niche, whether it be as a laborer in the factory, mine, field, or the fisheries, or whether it be a professional man, a physician, or a lawyer, or a dentist, or whether it be a domestic servant or chauffeur—each one in his place renders a service to his neighbors and is entitled to his living and to the opportunity to make a living.

As to the cause of our great depression we liberal students have clearly demonstrated it. There is now a large number of students who fully understand the money question as the main cause. They are capable of explaining it and defending it against the attacks

of the old historic economists, who believe in the ancient traditions and classical learnings of 150 years ago, in which the gold standard was supposed to be a dependable measure of value. The United States, of course, has now completely demonstrated the utter fallacy of that doctrine, that it is not the gold content of a dollar, but it is the imprint of the Government, the stamp of the Government, the sovereign power of the Government, which makes it money, and the use of gold as money gives it an added value. Before we had Government giving the people dependable money, or money of any kind, whether it would be dependable or not, gold by its nature was a measure of value commonly used by the whole world, and it is because it was so commonly used that the historic idea came into being that it was the gold in the money which gave it the value.

As a matter of fact, we now know that of a thousand million dollars of gold mined annually less than $100,000,000 is used for commodity purposes and in the arts and sciences, and $900,000,000 of it is used for monetary purposes by legislative authority of the nations of the world employing the gold ingots or gold bars for the purposes of international exchange.

We have learned, Mr. Chairman and gentlemen of the committee, that the Congress of the United States, which is authorized by the Constitution of the United States to coin money and regulate the value thereof, has failed to perceive the prime importance of what is taking place year after year, and so gradually that hardly anyone understood it, that the creative power of the Government, the sovereign power of the Government as to coining money has been transferred from the Government to private persons.

I have no sympathy with the abuse of the banks. I for 10 years served as national bank president, and for 46 years as national bank director, and I therefore have some familiarity with banks and know their value to the community, to the public. I have great respect and sympathy for them. I am one of the mourners that have looked at the death of 15,000 of our banks under this unwise system which has grown up, with great commiseration and sorrow. I see what is taking place, as do thousands and tens of thousands of others who now see it, who now know, Mr. Chairman, that the money which transacts 95 percent of all of the business of the American people is created by the banks and their millions of borrowers by the simple process of the bank lending money to the borrower against the property of the borrower as a safeguard, a collateral, and giving the depositor a deposit slip saying that he has deposited 10,000 with the bank—10,000 of what? Ten thousand dollars of money, which the bank agrees to pay on demand, and which the bank further agrees to convert into legal tender money, if necessary. Fortunately we now have made all money legal tender, and gotten rid of one of the serious bars to the future progress of our happiness.

It is worth while to inquire how much money the people should have for the purposes of transacting their business. Well, fortunately, the people have to some extent, and only to some extent, furnished us with the evidence of how much money they need. That need is shown by their deposits in 1929 which, excluding interbank deposits, amounted to 55 billion dollars.

Now, of those 55 billions of deposits in 1929, over 9 billions were savings accounts in the mutual savings banks which the people wanted because they needed such funds as savings to meet any contingency of life, sickness, death, marriage, birth—all of the things which occasion a sudden call upon the family for an extra expense.

In addition to those 9 billions, there were about 10 billions of additional savings accounts in the commercial banks of the United States. In addition to that, there were about 24 billions of demand deposits at that time, and about 21 billions of time deposits, which included the savings accounts.

MALDISTRIBUTION OF THE MONEY SUPPLY

Mr. Chairman, recently I asked the Federal Deposit Insurance Corporation to make for me a subdivision of the bank deposits at the time the Corporation went into business in 1934. I have here the reply which I submit for the record as exhibit 1.

Mr. GOLDSBOROUGH. Without objection, the exhibit will be inserted in the record, and then you may proceed and describe it.

EXHIBIT 1

FEDERAL DEPOSIT INSURANCE CORPORATION,
Washington, April 25, 1936.

MR. ROBERT L. OWEN,
Washington, D. C.

DEAR MR. OWEN: In accordance with your request, I am enclosing, herewith, data relating to the deposits of operating banks in the continental United States on December 31, 1935, and insured and uninsured deposits in operating banks on October 1, 1934.

You will observe that the figures relating to the different kinds of deposits in the noninsured commercial banks have been estimated. For this reason the material should be taken as indicative rather than definitive. The results, however, should be sufficiently accurate for your purposes.

Very truly yours,

DONALD S. THOMPSON,
Senior Research Assistant.

Insured and uninsured deposits in operating banks in the United States as of Oct. 1, 1934

[In millions of dollars]

	Number of banks	Total deposits	Insured deposits	Uninsured deposits
Insured commercial banks	14,060	35,987	15,654	20,333
Noninsured commercial banks [1]	1,148	893		893
Insured mutual savings banks	68	1,038	801	237
Noninsured mutual savings banks [2]	506	8,501		8,501

[1] Deposits are as of June 30 or Dec. 31, 1934.
[2] Deposits are as of June 30, 1934.

Mr. OWEN. When the Federal Deposit Insurance Corporation reported on the deposits in the banks of the country in October 1934 they made a very interesting disclosure which I call to your attention. It is a matter of supreme importance in my judgment and will assist the committee in arriving at a just judgment as to what

is necessary to be done to relieve this country from unemployment and from inactivity of our producing forces.

They found that in all of the commercial banks of the United States there were $35,000,000,000 of deposits, $20,000,000,000 of which were above $5,000, and which were held by less than 2 percent of the depositors, and 98 percent of the deposits, consisting of 49,750,000 deposits, not depositors, but deposits, some people having 1, 2, or 3 deposits—they found that 98 percent of the deposits represented only $15,000,000,000; and of those $15,000,000,000, I find upon examination and from the record that I am speaking to you about that about $11,000,000,000 of that $15,000,000,000 in 1934 were savings accounts, leaving about 49 million deposits with less than $4,000,000,000 upon which they could check for the transaction of the national business. A part of that $4,000,000,000 is time deposits, too, but the classification is not completely available as to the amount. I do not know how much of that $4,000,000,000 is time deposits, but about $1,000,000,000 represents certificates of deposits. It is sufficient for your committee to observe that 49 million deposits had a reservoir of checking accounts of about $3,000,000,000 or less, whereas there has drifted into the hands of our great corporations as surplus reserves in part—and that classification is not definitely known to me—$20,000,000,000, approximately, a very large part of which is subject to check.

CONSUMERS' DIVIDENDS

I have shown the inadequacy of purchasing power in the hands of the consumers. I was present yesterday morning and heard the explanation given with regard to the relationship between production and consumption, and I found myself in complete accord with what Mr. Harvey said on that subject; namely, that when the producing element in our Nation are producing they pay out in wages, salaries, and for materials an amount that is the cost of production, and then when they sell the product these producers receive back their cost of production plus their profit, and if that profit shall be kept for reinvestment it means the piling up of goods and a tendency to the discharge of work people except as that profit shall be expended by some in production.

In this great depression the quantity of production went down to where the country's productive capacity was nearly three times the quantity of the people's purchasing power. The evils have been dreadful, along with lawlessness, an instance of which has been that the jobless took possession of the hall of the assembly in New Jersey, and in Wisconsin.

The public in general have the idea that they know what is happening in this depression. I wonder! I wonder if that is so! Have any of you in this committee ever visualized the 20,000 American citizens who annually have committed suicide?

It is easy to speak of $1,000,000,000 of money in productive capacity. We know that our productive capacity is at least forty or fifty billions more than at present. Take the Loeb Chart of Plenty, a report made as the result of the work of 60 experts who examined this question, that our unemployed productive capacity in the last 5 years has caused us a loss of wealth which we could have enjoyed approximately

equal to the total wealth of the United States at this time. We have every reason to believe that that is so. We talk in almost light terms of a billion dollars, but a million dollars, if it were in silver bullion at $5 a troy pound, would take 200,000 pounds to make a million dollars. It would take 2,000 men walking one by one with a bag of 100 pounds of bullion silver on the shoulder of each one of them, throwing it down in this room, to make $1,000,000, and $1,000,000,000 is a thousand times as great.

LOSSES FROM THE DEPRESSION

I was interested, Mr. Chairman and gentlemen of the committee, in a report which I have received from the collector of internal revenue on the income-reporting corporations of this country. They, between December 1929 and December 1933, charged off $68,000,000,000 of assets.

Prof. Irving Fisher puts the loss in American property due to the shrinkage in money supply at 200 billion dollars.

The effect on the common stocks in the New York stock market was a shrinkage from $77,000,000,000 in value in 1929, down to a minimum of $13,000,000,000. That is an exhibit of the shrinkage of value we have had in the American dollar. Thus in 1932 the American dollar bought five times as much of the property invested in our great productive corporations in this country as it did 4 years before.

Consider the measure of value we have had in this country in terms of bread, meat, and clothes. Measured in those commodities our American dollar in 1932 was two-thirds above normal, the 1926 price level; and 276 percent above what it was in May 1920; and you must remember that when you measure the dollar by the commodity index you measure the change in the dollar by the most favorable factor which is available for our use. In the depression the volume of the commodities went down to nearly one-half, and the value of the commodities should have increased to twice what they were. Instead of that being true, being twice what they were, instead of being 200, as they ought to have been, we saw them go down to 60 in 1933.

THE OWEN MONETARY CHART

Now, Mr. Chairman, with a view to understanding the science of money and to making it possible to convey to others a reasonable understanding of what has taken place, why it has taken place, and what the cure is, I have asked the Federal Reserve Bureau of Research to collate for me the figures in the form of a monetary chart. This chart I present to the committee, accompanied by a letter from the director of the said bureau of research, and I wish to add my explanation of the chart.

Mr. GOLDSBOROUGH. Without objection, the letter and chart will be inserted in the record, Senator.

EXHIBIT 2

THE OWEN MONETARY CHART

To present to the reader an intelligent birds-eye view of the relation between the quantity of the people's medium of exchange and prosperity, I recently

requested the Federal Reserve Board's research bureau to supply me with condensed figures of the items set forth in the accompanying chart. Herewith is the letter of transmittal.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,
Washington, February 29, 1936.

Hon. ROBERT L. OWEN,
Washington, D. C.

DEAR SENATOR OMEN: I am sending you a table that gives as much of the information your table form called for as we are able to find. We have had it retyped and have had to change the headings somewhat in order to make them fit more accurately the data which we are able to present. A statement explaining each item is also attached.

I hope that this information will serve your purpose.

Very truly yours,

E. A. GOLDENWEISER,
Director of Research and Statistics.

NOTES TO TABLE PREPARED AT THE REQUEST OF THE HON. ROBERT L. OWEN

1. Number of national banks (June 30 or nearest date): All national banks in the continental United States.

2. Number of State banks (June 30 or nearest date): All State commercial banks, trust companies, mutual and stock savings banks, and such private and industrial banks as are included in abstracts issued by State banking departments. Also includes beginning with June 1934, private banks which, pursuant to the provisions of section 21 (a) of the Banking Act of 1933, have agreed to examination by the Comptroller of the Currency or a Federal Reserve bank.

3. Total number of banks (June 30 or nearest date): Includes banks mentioned in 1 and 2.

4. Total loans, all banks (in billions of dollars; June 30 or nearest date): See notes to 1 and 2 for list of banks covered.

5. Total investments, all banks (in billions of dollars; June 30 or nearest date): See notes to 1 and 2 for list of banks covered.

6. Total deposits, all banks (in billions of dollars; June 30 or nearest date): Exclusive of interbank deposits. See notes to 1 and 2 for list of banks covered.

7. Cash in vault, all banks (in millions of dollars; June 30 or nearest date): Figures compiled by the Comptroller of the Currency. No figures are available subsequent to those given. Cash in vault was large through 1917 because the transfer of reserves by member banks to the Federal Reserve banks was not completed until that year. There are minor differences between the banks covered by these figures and those covered in 3–6.

8. United States money in circulation (in billions of dollars; end of June figures): Money outside Treasury and Federal Reserve banks (prior to November 1914, money outside Treasury). Figures after January 31, 1934, do not include gold coin; prior figures for purposes of comparison with current figures have been reduced by $287,000,000, the estimated amount of gold coin in circulation on January 31, 1934. Figures prior to June 21, 1917 (when legislation became effective changing reserve requirements of member banks), while comparable with one another, are not strictly comparable with those for succeeding dates; the transfer to the Federal Reserve banks of that part of legal reserves of member banks formerly held in own vaults reduced the volume of money outside Treasury and Federal Reserve banks. The increasing membership of State banks in the Federal Reserve System after June 1917, had a similar effect upon the figures. The 1936 figure given is for the end of January.

9. Total Reserve bank credit outstanding (in billions of dollars; and of June figures): Includes bills bought and discounted by Reserve banks, United States Government securities held, and other Reserve Bank credit. The 1936 figure given is for January 30.

10. Total capital, surplus, and net undivided profits, all banks (in billions of dollars; June 30 or nearest date): Figures compiled by the Comptroller of the Currency. No figures are available subsequent to those given. Includes in 1934 capital notes and debentures in banks other than national.

11. Total number of depositors: Figures on the total number of depositors are not available.

12 (a). Debits to individual accounts in 141 centers (in billions of dollars; annual figures): Includes debits on the books of reporting banks to the accounts

of individuals, firms, corporations, and of the United States Government, including war-loan deposit accounts; also debits to savings accounts, payments from trust companies, and certificates of deposit paid. Does not include debits to the accounts of other banks or in settlement of clearing-house balances, the payment of cashiers' checks, charges to expense and miscellaneous accounts, corrections, and similar charges. Figures for 1933 are for 11 months, excluding March. [Checks cashed.]

12 (b). Estimated debits to individual accounts—all commercial banks (in billions of dollars; annual figures): The estimate for unreported debits used in arriving at the estimate of debits of all commercial banks is based on the amount of deposits in banks other than the reporting banks on the assumption that balances in these banks were drawn upon approximately as many times in the course of a year as were balances in reporting banks in smaller cities. [Checks cashed.]

13. Estimated national income (1929=100; annual figures): There are no uniform dollar figures for national income extending as far back as 1913. The series of index numbers given is based on several different estimates of national income. For a discussion of them see an article entitled "The National Income and Its Distribution", by W. L. Crum, in the Journal of the American Statistical Association for March 1935. Dollar estimates for recent years made by the Department of Commerce are, in millions of dollars, as folllows:

	1929	1930	1931	1932	1933	1934
Income produced	$81, 034	$67, 917	$53, 564	$39, 545	$41, 889	$48, 561
Business savings	2, 402	−5, 015	−8, 120	−8, 817	−3, 051	−1, 628
Income paid out	78, 632	72, 932	61, 704	48, 362	44, 940	50, 189

14. Purchasing power of the dollar (1926=1.000; June figures): Based on the wholesale price index for all commodities of the Bureau of Labor Statistics. The figures are derived by dividing 100 by the wholesale price index for any given date. The 1936 figure is for January.

15. Wholesale prices, all commodities (1926=100; June figures): Compiled by the Bureau of Labor Statistics. The 1936 figure is for January.

16. Wholesale prices, farm products (1926=100; June figures).

17. Price of cotton-middling at New Orleans (cents per pound; June 30 figures): Compiled by the Department of Agriculture. The 1936 figure is for January 30.

18. Market value of stocks listed on the New York Stock Exchange (in billions of dollars; July 1 figures): Compiled by the New York Stock Exchange. The 1936 figure is for January 1.

19. Total ordinary receipts of United States Treasury (in billions of dollars; fiscal years ending June 30): Compiled by United States Treasury Department. Receipts from June 30, 1935, to January 31, 1936, were $2,300,000,000; receipts for the corresponding previous half fiscal year were $2,200,000,000.

20. Exports, including reexports (in billions of dollars; annual figures): Compiled by the United States Department of Commerce.

21. General imports (in billions of dollars; annual figures): Compiled by United States Department of Commerce.

22. Physical volume of gross domestic output (1923–25=100; annual figures): Figures for the value of annual production are not available. The series given is for the physical volume of gross domestic output (of commodities and related services) and is based on estimates made by the National Bureau of Economic Research in terms of 1929 dollars. See the bulletin of the National Bureau of Economic Research for November 15, 1934, on "Gross Capital Formation, 1919–33", by Simon Kuznets.

23. Construction contracts awarded (1923–25 average=100; annual figures): Based on a 3 months moving average of F. W. Dodge data centered at the second month.

24. Freight-car loadings (1923–25 average=100; annual figures).

25. Estimated number of unemployed (in millions; June figures): Estimates of the National Industrial Conference Board.

26. Brokers' loans (in billions of dollars; average of daily figures for June): Loans to brokers and dealers secured by stocks and bonds made by reporting member banks in New York City.

27. Number of shares listed on New York Stock Exchange (in billions; July 1 figures): Compiled by the New York Stock Exchange. The 1936 figure is for January 1.

28. Losses to depositors in suspended banks: Figures of losses to depositors in suspended banks are not available on an annual basis. The following figures for certain periods have been compiled by the Federal Deposit Insurance Corporation:

Period [1]	All commercial banks	All mutual savings banks
1865–20	$262,600,000	
1920–30	815,300,000	$6,500,000
1931–34	2,333,100,000	11,900,000
Total	3,411,000,000	18,400,000

[1] In which banks suspended.

Several columns were added including the suicides, obtained from the Library of Congress, Legislative Reference Service, column 25 (b), and the commercial failures obtained from Dun and Bradstreet, columns 29 and 30, and the estimated number of unemployed by the American Federation of Labor, column 25 (a).

MONETARY PRINCIPLES DEMONSTRATED BY THE CHART

Mr. Owen. In the principles of monetary science it is well-established that the value of money depends upon the supply of money in relation to the demand for money. This was brilliantly set forth By Gustave Cassel in his lectures beore the University o Columbia on post-war monetary stabilization.

The chart demonstrates this principle with unerring accuracy, with incontrovertible evidence, and that is the purpose of this chart. It shows from authentic records the manner in which the American people, through the banks, have expanded and contracted the money supply. Since the World War the indefensible expansion and contraction of credit (money) has resulted in two booms and two depressions.

The figures as to the number of banks (column 3) show that from 1913 to 1936 the number of national and State banks expanded to 30,000 and then down to less than 15,000—less than half.

As to the loans and investments by these banks the figures show (columns 4 and 5) and the deposits resulting therefrom (column 6) the extent to which these loans and deposits were contracted. When the money supply was expanding the people were increasingly employed and production expanded. This is evidenced by the car loadings and expansion of building contracts. When the contraction took place, as it did in the two depressions, ruin followed.

In the first depression beginning in 1920, 5,000 banks were "dried up", and 5 million people became unemployed. From 1929 to date the greater contraction of check money resulted in the destruction of 15,000 banks and that 15 million people were thrown out of employment. That contraction resulted in our income-reporting corporations charging off $68,000,000,000 of their assets, from December 1929 to December 1933. It resulted in the drop of market prices of common stocks from $77,000,000,000 to $15,000,000,000 in 1932. It cut down our exports and imports to one-third; and our ordinary revenue to the Government from $4,200,000,000 to $2,100,-

OWEN MONETARY CHART, SHOWING EXPANSION AND CONTRACTION OF BANK CREDIT, WITH EFFECT ON PRICES, EMPLOYMENT, ETC.

Year	Number of national banks (June 30 or nearest date)	Number of State banks (June 30 or nearest date)	Total number of banks (June 30 or nearest date)	Total loans, all banks (in billions of dollars; June 30 or nearest date)	Total investments, all banks (in billions of dollars; June 30 or nearest date)	Total deposits, all banks (in billions of dollars; June 30 or nearest date)	Cash in vault, all banks (in millions of dollars; June 30 or nearest date)	United States money in circulation (in billions of dollars; end of June figures)	Total Reserve bank credit outstanding (in billions of dollars; end of June figures)	Total capital, surplus, and net undivided profits—all banks (in billions of dollars; June 30 or nearest date)	Value of farm lands and buildings (Census)	Debits to individual accounts in 141 centers (in billions of dollars; annual figures) bank checks	Estimated debits to individual accounts for all commercial banks (in billions of dollars; annual figures) bank checks
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12a)	(12b)
1913	----	----	----	----	----	----	1,560.7	----	----	4.3	38.4	----	----
1914	7,514	18,760	26,274	15.3	5.5	18.6	1,639.2	3.2	----	4.4	39.6	----	----
1915	7,597	19,008	26,605	15.7	5.8	19.1	1,457.7	3.0	----	4.5	39.5	----	----
1916	7,571	19,470	27,041	18.0	6.6	22.8	1,486.1	3.4	----	4.6	42.2	----	----
1917	7,599	19,896	27,495	20.5	7.8	26.4	1,502.5	3.8	0.6	4.9	45.5	----	----
1918	7,699	20,635	28,334	22.4	9.4	28.8	896.6	4.2	1.6	5.0	49.9	----	----
1919	7,779	20,821	28,600	24.7	11.8	33.6	997.4	4.6	2.5	5.3	54.5	455.3	----
1920	8,024	21,805	29,829	30.8	10.8	37.7	1,076.4	5.2	3.3	6.0	66.3	483.0	----
1921	8,150	22,410	30,560	29.0	11.0	35.7	946.6	4.6	2.1	6.4	61.4	399.0	----
1922	8,244	21,914	30,158	27.8	12.2	37.6	829.9	4.2	1.2	6.6	54.0	439.4	----
1923	8,236	21,597	29,833	30.4	13.3	40.7	797.1	4.5	1.2	6.8	52.7	463.7	----
1924	8,080	20,916	28,996	31.5	13.6	43.4	911.5	4.6	.8	7.1	50.4	491.7	----
1925	8,066	20,413	28,479	33.9	14.9	47.6	951.3	4.5	1.1	7.4	49.4	570.1	----
1926	7,972	19,882	27,854	36.2	15.4	49.7	996.5	4.6	1.2	7.8	49.0	608.0	----
1927	7,790	18,975	26,765	37.4	16.4	51.7	1,007.9	4.6	1.1	8.3	47.6	673.9	----
1928	7,685	18,256	25,941	39.5	17.8	53.4	887.8	4.5	1.6	8.9	47.4	806.4	----
1929	7,530	17,580	25,110	41.5	16.9	53.9	819.9	4.5	1.4	9.5	47.8	935.0	1,230
1930	7,247	16,605	23,852	40.6	17.5	55.0	866.0	4.2	1.0	10.0	47.8	662.0	900
1931	6,800	15,103	21,903	35.4	19.6	51.8	884.3	4.5	.9	9.5	43.7	481.3	660
1932	6,145	12,001	19,046	27.8	18.2	42.0	791.6	5.4	2.3	8.1	36.8	322.4	450
1933	4,897	9,622	14,519	22.2	17.9	38.0	672.6	5.4	2.2	6.9	30.3	282.7	430
1934	5,417	10,418	15,835	21.3	21.2	41.9	714.0	5.4	2.5	7.4	31.6	331.9	470
1935	5,425	10,569	15,004	20.3	24.1	45.8	----	5.6	2.4	----	32.8	[1] 374.3	530
1936	----	----	----	20.1	----	----	----	5.7	2.5	----	----	----	----

Year	Estimated national income (1929=100; annual figures)	Purchasing power of the dollar (1926=1.000; June figures)	Wholesale prices, all commodities (1926=100; June figures)	Wholesale prices, farm products (1926=100; June figures)	Price of cotton, Middling at New Orleans (cents per pound; June 30 figures)	Market value of stocks listed on the New York Stock Exchange (in billions of dollars; July 1 figures)	Total ordinary receipts of U. S. Treasury (in billions of dollars; fiscal years ending June 30)	Exports, including reexports (in billions of dollars; annual figures)	General imports (in billions of dollars; annual figures)	Physical volume of gross domestic output (1923-25=100; annual figures)	Construction contracts awarded (1923-25 average=100; annual figures)	Freight-car loadings (1923-25 average=100; annual figures)	Estimated number of unemployed (in millions; June figures)	Estimated number of unemployed by American Federation of Labor (in millions)	Suicides in cities of 100,000 and up	Suicides in the United States (Census Bureau)	Brokers' loans (in billions of dollars; average of daily figures for June)	Number of shares listed on New York Stock Exchange (in billions; July 1 figures)	Losses to depositors in suspended banks	Number of commercial failures	Amount of failures (in millions)
	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(25a)	(25b)	(25c)	(26)	(27)	(28)	(29)	(30)
1913	38.9	1.449	69.0	69.8	----	----	0.7	2.5	1.8	----	----	----	----	----	3,957	----	----	----		----	----
1914	38.8	1.484	67.4	71.6	----	----	.7	2.1	1.8	----	----	----	----	----	4,351	----	----	----		18,280	357.9
1915	40.6	1.464	68.3	70.3	9.00	----	.7	3.6	1.8	----	----	----	----	----	4,455	----	----	----		22,156	302.3
1916	47.5	1.206	82.9	78.2	13.06	----	.8	5.5	2.4	----	----	----	----	----	3,892	----	----	----		16,993	106.2
1917	56.2	.820	122.0	134.0	26.00	----	1.1	6.2	3.0	----	----	----	----	----	3,816	----	----	----		13,855	182.4
1918	65.6	.775	129.0	140.2	31.00	----	3.7	6.1	3.0	----	----	----	----	----	3,351	----	0.7	----		9,982	163.0
1919	70.7	.737	135.6	156.9	38.00	----	5.2	7.9	3.9	83	63	84	----	----	3,220	----	1.2	----		6,451	113.3
1920	78.7	.601	166.5	167.4	39.50	----	6.7	8.2	5.3	86	63	91	----	1,401	2,910	8,959	.9	----		8,881	295.1
1921	65.6	1.071	93.4	80.6	11.00	----	5.6	4.5	2.5	75	56	79	----	4,270	3,731	11,136	.8	----		19,652	627.4
1922	69.9	1.038	96.3	92.8	21.68	----	4.1	3.8	3.1	86	79	87	----	3,441	3,626	11,053	1.4	----	See note	23,676	623.9
1923	79.8	.997	100.3	96.0	28.50	----	4.0	4.2	3.8	100	84	100	----	1,532	3,692	11,287	1.5	----		18,718	539.4
1924	81.3	1.054	94.9	94.3	28.80	----	4.0	4.6	3.6	97	94	97	----	2,315	3,855	12,061	1.4	----		20,615	543.2
1925	86.4	.971	103.0	109.3	24.00	20.7	3.8	4.9	4.2	103	122	103	----	1,775	4,000	12,405	2.2	.5		21,214	443.7
1926	91.1	.996	100.4	100.9	17.41	35.6	4.0	4.8	4.4	110	120	106	----	1,660	4,264	13,410	2.5	.5		21,773	409.2
1927	93.4	1.063	94.1	96.5	16.59	42.0	4.1	4.9	4.2	109	129	103	----	2,055	4,492	14,356	3.1	.6		23,146	520.1
1928	96.0	1.034	96.7	106.7	22.80	52.9	4.0	5.1	4.1	113	135	103	----	2,200	4,709	15,566	4.4	.7		23,842	489.6
1929	100.0	1.050	95.2	103.3	18.65	77.3	4.0	5.2	4.4	117	117	106	----	1,864	4,996	16,260	5.4	.9		22,909	483.3
1930	92.8	1.152	86.8	88.9	12.76	63.9	4.2	3.8	3.1	105	92	92	3,678	4,770	5,587	18,551	3.8	1.2		26,355	668.3
1931	78.5	1.387	72.1	65.4	9.74	47.4	3.3	2.4	2.1	90	63	75	7,165	8,738	5,668	20,088	1.5	1.3		28,285	736.3
1932	61.5	1.565	63.9	45.7	5.61	15.6	2.1	1.6	1.3	67	28	56	11,596	13,182	6,050	20,027	.4	1.3		31,822	928.3
1933	57.2	1.538	65.0	53.2	10.03	36.3	2.2	1.7	1.4	[1] 82	25	58	12,634	13,723	5,571	19,993	.8	1.3		20,307	502.8
1934	63.8	1.340	74.6	63.3	12.40	34.4	3.3	2.1	1.7	----	32	62	9,252	12,364	----	18,828	1.6	1.3		12,185	264.2
1935	----	1.253	79.8	78.3	12.20	36.2	4.0	2.3	2.0	----	37	63	9,892	12,208	----	----	.9	1.3		11,879	230.1
1936	----	1.241	80.6	78.2	11.71	46.9	----	----	----	----	----	----	----	----	----	----	----	1.3		----	----

[1] Preliminary.

The above data furnished from the Federal Reserve Board, Department of Commerce, Dun & Bradstreet.

000,000. It resulted in the destruction of the value of the farms and ranches to less than half, 1921 to date. Year by year the effects of that contraction is shown accurately by the decline in car loadings and the drop in the index as a whole of physical production, also the number of the unemployed (columns 22 to 25a).

In column 15 is set forth year by year the all-commodity index; and in column 13 the estimated total value of national income to all the people.

I sum it all up by repeating what I stated as the general principle a moment ago. that the great principle of monetary science is the law of supply and demand, that the value of money depends on the supply of money in relation to the demand for money. And the checks drawn on the banks are check money. The volume of this check money is shown year by year in columns 12a and 12b.

The chart demonstrates that great principle, and I ask this committee and Congress to do their duty by providing by law for an adequate volume of money. The supreme importance that Congress shall fulfill this duty cannot be denied by a person of reasonable intelligence.

THE UNEMPLOYED TODAY'S SUPREME ISSUE

Mr. Chairman, today everyone agrees that the unemployed are the supreme issue. The great problem is to restore the unemployed to private enterprise. What can we do? What should we do?

We should restore to our people an amount of working capital equal to that which previously employed them. The loss of $20,000,000,000 of working capital which the banks have destroyed—the destruction of $20,000,000,000 of loans—should be restored in some suitable form. That is self-evident.

In other words, in the highly developed system of cooperative industry an adequate supply of working capital is a necessity, with which to pay the wages and salaries and other costs. Today the banks and the frightened people have destroyed $20,000,000,000 of bank loans.

The chart shows conclusively that with contraction in the supply of the medium of exchange, including contraction in bank loans and deposits, that production decreased—an increase of unemployment. And that with an expansion of the money supply, including check money, production has increased and unemployment has decreased. Thus the chart supplies convincing evidence of the truth of our reasoning. It should be a matter of common sense to know that in order to successfully run a little shop or a big shop you must have an adequate supply of working capital, including bank loans, which means money, check money. The statistics in the chart overwhelmingly confirm the self-evident principles I have stated, namely, that in order to secure maximum production and maximum employment there must exist an adequate supply of capital, largely created by credit, as check money.

Also, it should be obvious that it avails little if 2 percent of the people hold 20 or 30 billions of money congealed as reserves of private corporations, for their own financial security.

In the foregoing statement I have described the obstacle to reemployment from the vast lack of working capital as check money.

OBSTACLES OTHER THAN LACK OF WORKING CAPITAL

There are other obstacles in the way of complete recovery. For example, there are the large number of monopolies in private enterprise. These private monopolies yield to their owners, the business interests and bankers, exorbitant profits, plus the further obstacle to recovery of there having been built up the vast reserves of the private corporations that have withdrawn from the public billions of dollars of the needed medium of exchange. True, the Government is taxing those reserves in the bill now under discussion, but the more rational remedy would be for the Government to directly supply the necessary expansion of a medium of exchange without paying interest to the banks.

A third obstacle to normal recovery of production is the monopolies of building materials and the monopoly of the building trades and high prices. These monopoly prices have forced the public to largely cease building operations. Houses cannot be built advantageously in competition with houses for sale at present prices.

A fourth obstacle to ending unemployment is that the current prices by the producers and the professional groups are so high that the consumers have not enough purchasing power to meet those relatively high prices. The remedy that is proposed in the bill before this committee provides for the issuance of consumers' dividends, just sufficient in volume to set going the full productive capacity wherever the nature of the situation will operate.

I add that no undue expansion of money and prices need occur if the prices of the main commodities shall be fixed by self-regulation as a whole, with supervision by the Federal Trade Commission. That was done successfully by the Wilson liberal government during this country's participation in the World War. A published report of 800 pages entitled "Government Control of Prices" is on sale by the Superintendent of Documents, price 25 cents.

In 1929 President Hoover and 16 other publicists signed a report advocating that the Government fix the main wholesale prices to restore prosperity to the three industries in depression: agriculture, soft coal, and textiles. That report is published in the daily press of May 14, 1929. The report in full is by a corps of experts privately employed. The report is entitled "Recent Economic Changes", published in two volumes, price \$7.50, by McGraw-Hill Book Co., New York City.

Today in Alberta the social credit government of the Province has fixed its main prices at wholesale. This was asked for by the small business interests of the Province to end the price cutting. Also the Province of Alberta is applying social credit in road building. The Premier has said that in 60 days there will be no unemployment in the Province.

I have described several obstacles to ending the unemployment. Improved methods in production, labor-saving mechanisms, are not obstacles to reemployment if the Government will courageously apply the remedies needed to overcome the real obstacles I have described.

Mr. Chairman. I have clearly proved to you gentlemen the vast destruction of this country's check money, the bank loans, and I

have pointed out the distressing effects, together with the need that the Government shall provide for the quick restoration of the money supply. The details are in the Money Chart in 30 columns.

RESTORATION OF THE PRICE LEVEL

Mr. Chairman, in 1932 the American people nominated and elected to the Presidency the present incumbent, as their Chief Executive, to restore the price level and to achieve maximum production and employment, in accord with the Goldsborough bill of 1932, which he had approved. That bill declared the policy of the United States to restore and maintain the purchasing power of the dollar at an average ascertained by the Department of Labor for the years 1921 to 1929, and instructed the Secretary of the Treasury and the Federal Reserve Board and the Federal Reserve banks to make effective that policy. This committee had studied it and reported it almost unanimously, I believe. It was not a partisan matter, but an American matter, rising far above partisanship in dignity and in human worth.

In 1932 that act had passed in the House by 289 to 60, Republicans and Democrats alike supporting it. It was defeated in the Senate, because it was not really understood. There had not been sufficient discussion of it in public. There was not an organized public opinion to support it. There is needed an organized public opinion, and such a hearing as you are having now serves a very useful purpose, in helping to establish the truth, because "you shall know the truth and the truth shall make you free."

We need, therefore, not only the amount of money which the American people have demonstrated by manufacturing it for themselves, 55 billions, excluding interbank accounts which are not checkable for the purposes of the consumer, and 55 billions was very inadequate, because we did not then have enough of the medium of exchange to reach our maximum production. Loeb in 1929 estimated our production at 96 billions. Some other estimates were 89 billions, and some have been lower.

It is difficult to make an appraisal with absolute accuracy, but Loeb's Chart of Plenty estimates that in 1929 we could have been producing 135 billions using the same facilities that we had, and now with increased improvements and machinery, with the people who are ready, willing, and waiting to work, we ought to increase that production to twice what it has been at its peak heretofore. And if that were done, Mr. Chairman and gentlemen, it would double the income of every family in America, Republican family and Democratic family, Catholic family and Protestant family, Jewish family, all kinds of them. This is not for the benefit of any class. It is for the benefit of the rich; it will make the rich richer, much richer, and for those who wish to accumulate more than $100,-000,000 apiece, I have no objection, provided always that those who are willing to work and create the things they want shall be given the opportunity to make a reasonable annual living wage. This can be done by supplying an adequate medium of exchange by our great Government, and we have a great Government and a great

people, of whom we are justly proud, and no criticism should be directed against what has occurred that is not constructive. It is perfectly futile to denounce some individuals for having brought about this panic or depression. While it may be true, that is aside from the mark.

So the question that we are concerned with is not pursuing either the so-called greedy or ignorant; the question that we have before us is giving employment to 12,000,000 people who are unemployed in private enterprise, mainly because of an inadequate supply of money.

We have had great confusion produced by the so-called orthodox economists, the traditional, the classical economists. They say that only the coins and paper currency are money, excluding the checks on bank deposits, and that during the depression the volume of the currency has been practically stable. But a further fact is that the check money constitutes 95 percent of the medium of exchange and that this check money was contracted to one-third at the depth of the depression. It is shown in the monetary chart under "Debits to individual accounts" (column 12B).

Another very important discovery has been made in connection with this matter that ought not to be overlooked, and that is the matter presented to this committee a year ago by Mr. Hemphill and others, that it had been discovered that the volume of our money had the relationship to the production in this country of 1 to 3. In other words, previous to this depression, and even up into the depression and a considerable part of the way, the production by value was three times the amount of our available demand bank deposits and the currency issued by the Government. It is now only two times, because our activities have been hampered by fear and the lack of money and the lack of consuming power.

There are three ways to bring about relief to this matter. One of them is presented in an article which I dictated 3 weeks ago for a Canadian magazine, the Instructor. The Canadian leaders of progressive thought sent a committee to Washington, and they called upon me, among many others, and I was invited by Mr. J. J. Harpell to write an expression of my views as to the road to recovery, and I did so, hoping that it might serve a useful purpose in conveying to others the results of my studies.

I advocated the taking over of the 12 Reserve banks by the National Government and the buying from time to time of Government bonds and other bankable assets to make liquid money out of nonliquid investments. This the Bank of England has done for many decades. My plan contemplates a complete mechanism for regulating the value of money by regulating the supply of money. (See Exhibit 7.)

The bill before this committee presents two ways in which recovery can be brought about. One is by the United States, through social credit, and that means money in the form of credit, because credit and money are the same thing. The word "money" means, by the dictionary meaning and by the properly accepted meaning among those who are informed, anything having a conventional use employed as a medium of exchange, a measure of value, and credit does precisely that thing, and the check money is better money than any

other money. It is better than currency. It is better than gold. It is better than silver, because with check money with one check you can dispose of an amount, no matter how large or how small it may be. You do not have to make any change on the check. You write on the check the number of dollars and cents, and that check is safeguarded against counterfeiting by the signature of the depositor and the drawer and by the signature of the payee to whom the check is drawn, and the bank keeps the books of the depositor in that way, and the depositor can take his own checks at the end of the year and make an accounting to his Government on his income with facility. He could not do that conveniently if he used metallic or paper money and had to get a receipt every time.

The way I have suggested it can be done in the article to which I have referred was that the Government of the United States could do precisely what the banks have been doing in expanding money. The banks buy Government bonds, and they take the bond with one hand and put it under the head of an investment, and they enter on the other side of the ledger a demand bank deposit to the United States, and it functions as money until that bond is paid.

The United States Government if it will take over the Federal Reserve banks can do the same thing that the member banks are doing. That is, the Government acting through those Reserve banks would buy bonds and other bankable assets with reserve bank credit.

Now, Mr. Chairman, that is one way to do it. This bill proposes two ways in which it can be done. One is a dividend to the citizens of this country of $5 a month in the form of a credit, a so-called social credit. It does not make any difference whether you use the word "social" or not, because a credit is money created by the sovereign power of this country. That is the way in which all money should be created in this country.

Another way is to have the Government give a credit to the merchant and a discount to the purchaser from the merchant of a certain percentage of the purchase made. The limited time in which I ought to speak to you forbids my going into that aspect of it. It is sufficient to say that you have now before you the fundamental facts which justify you in carrying out the policy of Abraham Lincoln on the money question, and he said with wisdom and truth, that money is a creature of law, and that the power of the Government under the Constitution to create money is the greatest creative opportunity, as well as the greatest obligation on the part of the Government.

LOSSES TO THE FARMERS

I have here a compilation showing how the farmers have suffered since the depression of 1921. The farmers number 20 percent of all of the people of this country. I would like for you to hear the extent to which their income compares with other incomes for their services in feeding this country, and in furnishing raw material. With your permission, I will ask Mr. Brougham to read this, as to the amount of their income as compared with that of their brothers.

Mr. BROUGHAM. In the census of 1930 there were 48,800,000 persons gainfully employed in the United States of America. Of these, 10,471,000 were engaged in farming, or about 21.4 percent. They should be entitled, therefore, to one-fifth of our national income. The national income and the income of the farmers from 1929 to 1934, inclusive, were as follows:

In 1929 the national income was $78,576,000,000, agricultural income $6,157,000,000, a percentage of 7.8.

In 1930 the national income was $72,973,000,000, the agricultural income $4,595,000,000, a percentage of 6.3.

In 1931 the national income was $61,433,000,000, the agricultural income $4,271,000,000, a percentage of 6.9.

In 1932 the national income was $47,964,000,000, the agricultural income $3,192,000,000, a percentage of 6.7.

In 1933 the national income was $44,431,000,000, the agricultural income $2,993,000,000, a percentage of 6.7.

In 1934 the national income was $49,440,000,000, the agricultural income $3,299,000,000, a percentage of 6.6.

EXHIBIT 3

HOW THE FARMERS HAVE SUFFERED

The national income and the income of the farmers from 1929 to 1934, inclusive, were as follows:

	National income	Agricultural income	Percentage
1929	$78, 576, 000, 000	$6, 157, 000, 000	7. 8
1930	72, 973, 000, 000	4, 595, 000, 000	6. 3
1931	61, 433, 000, 000	4, 271, 000, 000	6. 9
1932	47, 964, 000, 000	3, 192, 000, 000	6. 7
1933	44, 431, 000, 000	2, 993, 000, 000	6. 7
1934	49, 440, 000, 000	3, 299, 000, 000	6. 6

These are the conditions which have resulted in a colossal debt smothering the farmers and making life unendurable for them. It must be corrected as a matter of justice and in order to assure domestic tranquility and the general welfare.

Mr. OWEN. Mr. Chairman, I submit a statement of the farm mortgages by States. It shows that the farms in many States are mortgaged up to 80 percent in number, and the percentage would be still higher except that many unmortgaged farms are of 3 acres or less. I mark it exhibit 4.

EXHIBIT 4

PERCENTAGES OF FARM MORTGAGES BY STATES

Mr. Louis B. Ward has submitted to the Senate Committee on Agriculture the accompanying table of the farms and percentage of farms mortgaged in various States, as follows:

State	Farms mortgaged	Percent mortgaged	State	Farms mortgaged	Percent mortgaged
Mississippi	261, 000	83. 7	Oregon	32, 000	59. 6
Oklahoma	163, 000	80. 4	Delaware	5, 000	58. 6
Alabama	202, 000	78. 9	California	79, 000	58. 3
Georgia	199, 000	78. 2	Washington	40, 000	57. 7
North Dakota	60, 000	78. 2	New Jersey	14, 000	57. 6
Louisiana	125, 000	77. 6	Vermont	14, 000	56. 4
South Dakota	64, 000	77. 4	Michigan	95, 000	56. 2
Iowa	166, 000	77. 3	Utah	15, 000	55. 9
Nebraska	99, 000	77. 2	Maryland	23, 000	53. 4
Arkansas	186,000	77. 0	Massachusetts	13, 000	53. 1
South Carolina	121, 000	76. 7	Connecticut	9, 000	52. 7
Texas	377, 000	76. 1	Ohio	113, 000	51. 9
Kansas	119, 000	71. 9	New York	82, 000	51. 7
Colorado	40, 000	67. 9	Kentucky	126, 000	51. 4
Minnesota	125, 000	67. 8	Nevada	1, 000	46. 3
Idaho	27, 000	67. 1	Florida	26, 000	44. 9
Illinois	141, 000	66. 2	Virginia	75, 000	44. 3
Missouri	169, 000	66. 1	Pennsylvania	75, 000	43. 9
Wisconsin	119, 000	65. 9	Rhode Island	1, 000	43. 4
Montana	30, 000	64. 5	Arizona	5, 000	41. 8
North Carolina	176, 000	63. 2	New Hampshire	5, 000	38. 4
Wyoming	10, 000	62. 5	New Mexico	12, 000	38. 4
Indiana	111, 000	61. 4	Maine	13, 000	35. 1
Tennessee	147, 000	60. 2	West Virginia	26, 000	32. 6

In the above table was a very large number of farms of 3 acres or less, which were not mortgaged. Except for this fact the percentage of larger farms under mortgage would have been substantially higher.

The total value of the farms in 1935 was about $32,000,000,000. The value in 1920 was $67,000,000,000.

The estimated debt on these farms in 1934 was 9½ billion dollars, and because of foreclosures and other forced transfers to other purchasers of one and one-half billions, the debt remaining is about $8,000,000,000 for 1935.

Mr. Owen. Mr. Chairman, I would like to have Mr. Brougham give you a few citations from an exhibit which I have showing the check-money supply, by States. I would like him to name the States represented by the members of this committee, to tell the amount of the check money in their respective States. It is very striking.

Mr. Brougham. The check money in circulation between 1929 and 1934, in Alabama, fell from $128,315,000 to $72,103,000; the per capita, from $50.12 to $26.61.

Mr. Owen. The point is that there is $26.61 of check money per capita in Alabama to carry on the business of Alabama, of which 98 percent of the people have only a small percentage.

Mr. Brougham. In Arkansas the check money in circulation between 1929 and 1934 fell from $45,207,000 to $21,348,000; the per capital, from $101.59 to $46.71.

Mr. Owen. Take the States represented by members of the committee.

Mr. Brougham. In California, the per capita of check money in circulation fell from $222 down to $123; in Connecticut, from $168 to $107; in Georgia, from $48 to $39; in Idaho, from $66 to $46; Illinois, from $264 to $152; Indiana, from $165 to $56; Kentucky, from $80 to $47; Maryland, from $164 to $90; Massachusetts, from $245 to $170; Michigan, from $146 to $61; in Missouri it fell from $192 to $138; in New Jersey it fell from $180 to $92; in New York, from $556 to $406; North Carolina, from $45 to $28; Ohio, from $127 to $71; Pennsylvania, from $202 to $134; Texas, from $121 to $81; and Wisconsin, from $96 to $55.

Mr. Owen. With your permission, Mr. Chairman, I should like to have that whole statement go into the record.

Mr. Goldsborough. Without objection that may be done.

Exhibit 5

Check Money, by States

The bank deposits or check by States, illustrates the uneven manner in which bank credit is distributed, as the following table will exhibit for the years 1929 and 1934, with the shrinkage which took place from 1929 to 1934.

Year	Check money in circulation	Population	Per capita check circulation
Alabama			
1929	$128, 315, 000	2, 560, 000	$50. 12
1934	72, 103, 000	2, 710, 000	26. 61
Arizon			
1929	45, 207, 000	445, 000	101. 59
1934	21, 348, 000	457, 000	46. 71
Arkansas			
1929	84, 288, 000	1, 910, 000	44. 13
1934	43, 700, 000	1, 876, 000	23. 29
California			
1929	1, 026, 675, 000	4, 605, 000	222. 94
1934	759, 994, 000	6, 158, 000	123. 41
Colorado			
1929	140, 398, 000	1, 080, 000	130. 00
1934	100, 485, 000	1, 056, 000	95. 16
Connecticut			
1929	277, 978, 000	1, 646, 000	168. 88
1934	176, 243, 000	1, 655, 000	107. 10
Delaware			
1929	59, 915, 000	250, 000	239. 56
1934	48, 404, 000	242, 000	200. 02
District of Columbia			
1929	135, 740, 000	550, 000	246. 80
1934	113, 434, 000	497, 000	220. 24
Florida			
1929	120, 783, 000	1, 335, 000	90. 47
1934	88, 421, 000	1, 575, 000	56. 14
Georgia			
1929	152, 200, 000	3, 160, 000	48. 16
1934	114, 627, 000	2, 911, 000	39. 38
Idaho			
1929	35, 128, 000	532, 000	66. 03
1934	20, 671, 000	448, 000	46. 14
Illinois			
1929	1, 870, 999, 000	7, 360, 000	264. 21
1934	1, 199, 523, 000	7, 876, 000	152. 30
Indiana			
1929	359, 479, 000	3, 175, 000	165. 28
1934	185, 131, 000	3, 304, 000	56. 32
Iowa			
1929	290, 185, 000	2, 535, 000	144. 72
1934	157, 622, 000	2, 485, 000	63. 43
Kansas			
1929	222, 097, 000	1, 848, 000	120. 18
1934	146, 083, 000	1, 905, 000	76. 68
Kentucky			
1929	205, 624, 000	2, 545, 000	80. 56
1934	126, 708, 000	2, 657, 000	47. 69
Louisiana			
1929	222, 732, 000	1, 945, 000	114. 52
1934	105, 100, 000	2, 166, 000	48. 52
Maine			
1929	72, 886, 000	789, 000	92. 38
1934	42, 982, 000	804, 000	53. 46
Maryland			
1929	268, 889, 000	1, 635, 000	164. 46
1934	152, 025, 000	1, 671, 000	90. 98
Massachusetts			
1929	1, 040, 546, 000	4, 245, 000	245. 12
1934	740, 109, 000	4, 335, 000	170. 73
Michigan			
1929	665, 528, 000	4, 542, 000	146. 53
1934	310, 814, 000	5, 093, 000	61. 03
Minnesota			
1929	292, 847, 000	2, 700, 000	108. 83
1934	207, 893, 000	2, 602, 000	79. 90
Mississippi			
1929	74, 433, 000	1, 795, 000	42. 02
1934	43, 409, 000	2, 057, 000	21. 10
Missouri			
1929	672, 804, 000	3, 490, 000	192. 78
1934	508, 360, 000	3, 678, 000	138. 22

Year	Check money in circulation	Population	Per capita check circulation
Montana			
1929	56,426,000	715,000	78.92
1934	34,724,000	538,000	64.54
Nebraska			
1929	175,407,000	1,405,000	124.84
1934	115,037,000	1,395,000	82.46
Nevada			
1929	16,831,000	80,000	210.39
1934	5,982,000	94,000	63.64
New Hampshire			
1929	35,154,000	458,000	76.76
1934	25,826,000	470,000	54.95
New Jersey			
1929	709,503,000	3,930,000	180.54
1934	391,994,000	4,231,000	92.65
New Mexico			
1929	21,621,000	400,000	54.05
1934	13,703,000	437,000	31.36
New York			
1929	6,507,316,000	11,695,000	556.42
1934	5,309,838,000	13,059,000	406.60
North Carolina			
1929	136,665,000	2,980,000	45.86
1934	94,859,000	2,301,000	28.75
North Dakota			
1929	43,321,000	670,000	64.66
1934	21,557,000	688,000	31.33
Ohio			
1929	847,641,000	6,655,000	127.37
1934	490,021,000	6,836,000	71.68
Oklahoma			
1929	241,829,000	2,415,000	100.14
1934	147,267,000	2,475,000	59.50
Oregon			
1929	107,820,000	890,000	121.14
1934	65,884,000	990,000	66.55
Pennsylvania			
1929	1,986,810,000	9,790,000	202.94
1934	1,318,633,000	9,826,000	134.20
Rhode Island			
1929	121,331,000	690,000	175.84
1934	79,238,000	705,000	112.39
South Carolina			
1929	67,781,000	1,855,000	36.54
1934	37,730,000	1,750,000	21.56
South Dakota			
1929	56,151,000	702,000	79.99
1934	30,992,000	705,000	43.96
Tennessee			
1929	210,031,000	2,490,000	84.35
1934	112,760,000	2,676,000	42.14
1929	657,118,000	5,400,000	121.69
1934	493,556,000	6,073,000	81.27
Utah			
1929	49,078,000	528,000	92.95
1934	28,615,000	520,000	55.03
Vermont			
1929	28,422,000	357,000	79.61
1934	17,667,000	361,000	48.94
Virginia			
1929	180,479,000	2,555,000	70.64
1934	136,944,000	2,446,000	55.99
Washington			
1929	172,495,000	1,580,000	109.17
1934	108,222,000	1,608,000	67.30
West Virginia			
1929	150,549,000	1,680,000	89.61
1934	85,373,000	1,786,000	47.80
Wisconsin			
1929	284,304,000	2,955,000	96.21
1934	168,167,000	3,005,000	55.97
Wyoming			
1929	24,004,000	235,000	102.14
1934	14,076,000	232,000	60.67

NOTE.—The above figures are by Mr. Louis B. Ward, before the Senate Committee on Agriculture.

Mr. OWEN. As serious as is this data of the drop in check money by States it is much worse as interpreted in the light of the analysis of the bank deposits made in 1934 by the Federal Deposit Insurance Corporation, in exhibit 1. I now add as exhibit 6 a table made up from the data in the report by that corporation, and by States. The per capita of check money by States is reduced nearly one-half.

EXHIBIT 6

CHECK MONEY, BY STATES

(By R. L. Owen)

States	Percentage of insured deposits in number	Percentage of insured deposits in value	Dollars per capita of insured and uninsured demand bank deposits	Dollars per capita of insured bank deposits $5,000 and under
Alabama	99.3	59.7	$26.61	$15.88
Arizona	98.6	59.0	46.71	27.55
Arkansas	99.0	63.5	23.29	14.84
California	97.9	52.5	123.41	64.79
Colorado	98.7	52.8	95.16	50.24
Connecticut	98.4	50.8	107.10	54.40
Delaware	97.4	46.7	200.02	93.40
District of Columbia	98.7	53.6	220.24	118.04
Florida	98.9	50.8	56.14	28.51
Georgia	99.1	50.6	39.38	19.92
Idaho	98.8	66.2	46.14	30.44
Illinois	98.4	37.2	152.30	56.65
Indiana	99.1	60.3	56.32	33.96
Iowa	99.1	64.9	63.43	41.16
Kansas	99.1	61.4	76.68	47.08
Kentucky	99.1	63.9	47.69	30.47
Louisiana	98.9	45.5	48.52	22.07
Maine	98.9	73.6	53.46	39.34
Maryland	98.6	45.8	90.98	41.66
Massachusetts	97.9	38.8	170.73	66.23
Michigan	98.8	51.6	61.03	31.49
Minnesota	98.8	53.6	79.90	42.82
Mississippi	99.0	65.6	21.10	13.84
Missouri	98.7	44.1	138.22	60.95
Montana	98.2	63.7	64.54	41.11
Nebraska	98.8	57.7	82.46	47.57
Nevada	98.2	63.0	83.64	40.09
New Hampshire	[1] 98.9	[1] 66.6	54.95	36.59
New Jersey	98.7	63.7	92.65	59.01
New Mexico	99.0	63.8	31.36	20.00
New York	97.2	23.7	406.60	96.36
North Carolina	99.0	51.1	28.75	14.69
North Dakota	99.2	78.7	31.33	24.65
Ohio	98.9	56.1	71.68	40.21
Oklahoma	[1] 99.0	[1] 47.6	59.50	28.32
Oregon	99.0	63.5	66.55	42.25
Pennsylvania	98.6	46.7	134.20	62.67
Rhode Island	98.2	54.0	112.39	60.69
South Carolina	99.0	58.2	21.56	12.54
South Dakota	99.1	71.9	43.96	31.53
Tennessee	99.1	53.5	42.14	22.54
Texas	98.7	48.5	81.27	39.41
Utah	98.7	56.2	55.03	30.92
Vermont	99.0	84.1	48.94	41.15
Virginia	99.1	61.9	55.99	34.64
Washington	98.6	53.5	67.30	36.00
West Virginia	99.3	65.7	47.80	31.40
Wisconsin	99.1	65.6	55.97	36.71
Wyoming	99.0	68.3	60.67	41.43

[1] Excludes figures of 1 State bank member of Federal Reserve System.

The above monetary chart has been made with a view to helping a better understanding of the relative distribution of the consumers' purchasing power which is so essential to production and employment.

The first and second columns are taken from the October report, 1934, of the Federal Deposit Insurance Corporation, giving the percentages of insured deposits compared to the total of such deposits in number. The total number of deposits at that time was 49,750,000. Ninety-eight percent of these deposits were insured, being of $5,000 or less, and represented a total of about $15,000,000,000, while 2 percent of the deposits in number and exceeding $5,000 in value amounted to $20,000,000,000. Of the 15 billions insured, about 1 billion consisted of the deposits of 56 mutual savings banks having deposits of about 1 billion dollars. Of the 14 billion remaining, about 11 billions consisted of savings accounts in the commercial banks and inactive accounts based on certificates of deposit, leaving about 3 billions of demand deposits subject to check by 98 percent of the people of the United States, while 20 billion dollars of the deposits exceeded $5,000 in amount and were held by about 2 percent of the depositors or people of the United States. If 2 percent of the depositors held $20,000,000,000 in deposits exceeding $5,000 each, it may easily be that if we had the deposits of $5,000 and under divided so as to give the number and value of deposits between $1,000 and $5,000, it might easily help us to perceive that 5 percent of the depositors in the higher brackets would absorb half of the remaining demand deposits subject to check leaving probably less than two billions subject to check by 98 percent of the people. We have not this knowledge. It is merely pointed out to show that column 4 is not only a maximum but probably represents a number of dollars subject to check at least twice as great as it should be if we had the full knowledge of the facts.

We also know that including the people employed by Government as an emergency, we have approximately 12,000,000 people who should be employed but because of defective markets due to this depression and the destruction thereby of the purchasing power of the consumer and the maldistribution of our money supply they are unavoidably unemployed.

It also is a matter of serious importance to note that the figures I have cited demonstrate that the bank credit money which transacted 95 percent of our national business is being concentrated in the hands of our great industrial corporations and great estates and held inactive for various reasons, thus starving the great mass of the consumers who need more bank check money as consumers. Congress is attempting to tax the corporations to abate this practice.

But Congress will be better advised if it would furnish to the people additional money supply created by Congress under article I, section 8, paragraph 5, which charges Congress exclusively with the function of furnishing the medium of exchange and regulating its value.

We have shown in addition to these figures that the working capital of this country was contracted $20,000,000,000 by the banks and has not been replaced to this date. It therefore appears in the foregoing table that only $3,000,000,000 is available for demand bank deposits to 125 million people, or about $24 per capita, which is so badly distributed that South Carolina has $12, Mississippi $13, the District of Columbia $118, where the Government does pay out money to people.

The constitutional duty of the Government to provide an adequate medium of exchange, equitable to all the people of this country, should be thoughtfully considered. It was the destruction by contraction of credit and money which paralized consumption and reduced production and employment to one-half of what it had been, for the volume of production fell to one-half of what it should have been and the value of production fell still lower. It is not necessary to compel those who have an excess of bank credit to relinquish their

present excess of unemployed bank credit because the Government can leave them alone and still furnish to the 98 percent the medium of exchange they so greatly need. This the Government can do in any one of three ways; preferably by buying the public debt and converting such nonliquid securities into liquid bank deposits, which will give the consumers who need it the power to buy.

A second way would be for the Government to issue to the people of this country a per capita dividend of $50. That would immediately end the difficulty of underconsumption and underproduction and underemployment.

THE DUTY OF CONGRESS

Now, Mr. Chairman and gentlemen, I have presented to you on one page of a monetary chart all of the factors to see with your own eyes how our money has been expanded by the people and how it has been contracted by the people, expanded through optimism and hope, contracted through fear and pessimism.

The banks are not charged with the duty of regulating the value of money. That duty rests upon the Congress of the United States, and you made a valiant attempt in 1931 and 1932 to bring that about. I want to say to this committee that if you give your brain and your attention and your thought to this matter, and you solve this question as it ought to be solved—and you have already gone a long ways; I was greatly pleased yesterday morning to have the chairman read a memorandum of the things that you have already accomplished. It is wonderful, what you have done, perfectly wonderful, and it deserves the highest praise and appreciation of the American people, but when you really finish this job of regulating the value of money then you will be entitled to the everlasting gratitude of the people of this country, and your memory should be recorded in this Capitol in bronze and in marble.

QUESTIONS

Now, Mr. Chairman, I do not think it advisable to take up any more of your time. I hear an admonishing bell ringing there, and if there are any questions that any of the gentlemen would like to ask me, I hope you will feel perfectly free to ask them without any hesitation at all, and I will be glad to answer your questions if I can.

Mr. Goldsborough. Senator, have you made a study of this specific measure?

Mr. Owen. No, sir; I have not. I only had it read to me on Friday last, and I only had it read once, but reading it once was sufficient for me to see the merit and value in the bill. I assume that the bill could be improved; I do not pass on that question at all, or pretend to. I am only expressing my own opinion as to the value. It has merit.

Mr. Goldsborough. I believe that there is an impression among some of the members of the committee that this measure constitutes a form of dole. Do you feel sufficiently familiar with the bill to discuss that phase of it?

Mr. Owen. It is not a dole. What do you mean by a dole? A dole is a piece of charity. This is not a charity. It is a justice done

to those who produce in this country and who must consume and be able to consume in order to produce.

This is not a dole. It has no relation to a dole, except that it will give this important benefit to the consumer, and thereby stimulate the producer, who is also a consumer. You must remember that the producers and the consumers are the same people. Ninety-eight percent of the people of this country produce, and 100 percent consume.

Mr. WOLCOTT. Would you classify it as a subsidy?

Mr. OWEN. A subsidy, in its nature, ordinarily, is to give a public assistance to some enterprise which is of public value, and a subsidy is often justified for that reason. This is not a subsidy, because it is giving to the people who own the sovereignty of this country a participation in the sovereignty itself, in its creative power, for the benefit of all.

Mr. GOLDSBOROUGH. Now, Senator, this retail discount is provided for as a principal factor under the terms of this bill, and it is necessary for the purchaser to have some purchasing power before he can avail himself of the discount. In other words, there is no encouragement for him to loaf, not to work, because he has to have some purchasing power, which in most cases he will have produced himself before he can avail himself of the discount.

Mr. OWEN. That is self-evident.

Mr. CLARK. Senator, how far have other countries gone along the lines of the monetary reform such as you have addressed yourself to?

Mr. OWEN. In Japan they are using social credit to support their exports and their people engaged in shipping, thereby enabling them to do it in competition with the whole world.

But answering your question broadly, in Great Britain, in France, in Belgium, in Italy, and in other countries they have a money system where the controlling banks are privately owned, and this proposal before your committee in this Goldsborough bill differs fundamentally from all of the existing systems, by proposing that the people's Government shall issue the currency and other forms of social credit for the people's welfare. In England the British Exchequer is directing the policy of the Bank of England and of the British banks in establishing money of regulated value. A fuller explanation of this British system I submit as exhibit 7, setting forth an address before the Canadian Parliament by a member, G. G. McGreer, Kings Counsel and Mayor of Vancouver. He is the author of a recent book, Conquest of Poverty.

EXHIBIT 7

RECOVERY IN GREAT BRITAIN

(An excerpt from that speech by the Honorable G. G. McGeer is as follows:)

Let us look at what has actually taken place in Great Britain, because surely there we might get some indication as to what policy we should best adopt. In 1925 the British Government launched a deflationary policy, and it ended in complete failure. In September 1931 England faced a crisis that was inevitable under the deflationary policy that she was blindly following. Her national Government, loaded with $40,000,000,000 of debt, finding that deflation had

brought her to bankruptcy under the gold standard policy. What did she do? First, she abandoned the gold standard. She repudiated her gold debts in toto, suspended her war-debt payments, and then proceeded to finance recovery. By doing what? By issuing Bank of England sterling bills as national currency. The first step taken in that regard was the creation of a $2,000,000,000 stabilization fund to give a security that a reserve of gold had failed to supply. It might be said that Great Britain has recovered notwithstanding that she has left the control of the Bank of England in private hands. But I venture to suggest that the hopeless bankruptcy of the English financiers dealing in international exchange which would have resulted had the gold standard obligations continued, gave to the British Government power and opportunity to assert over the Bank of England a control which meant that the exchequer dictated the policy and the administrative action of the Bank of England, and that control has continued ever since.

Now, following that, what was her first step in recovery? She refunded her national debt at lower rates of interest. Then, having established a managed currency system, she proceeded to develop the regulation of her domestic and international trade. We have heard a great deal about what should not be done, but we have not heard so much about what has actually been done. Abandoning the shibboleths of free trade and avoiding the illusory promises of the tariff protectionists, Great Britain set out to develop a new trade policy that might properly be described as an intelligent trade policy. She proposed to finance her trade and develop it by balancing exports and imports. How far did she go in that regard? She bargained with every country that would bargain with her on the definite understanding that importations from that country would be governed by its purchases from Great Britain. But that is not all; she found that by setting up a definite system of managed international trade she had an additional security for her stabilization fund that soon made the pound sterling not convertible into gold more valuable than the pound sterling convertible into gold. How far did she then go in regulating domestic trade? She proceeded to rehabilitate home industry by offering suitable rewards wherever possible. She went further in many regards than even the United States have gone. Old-fashioned industries were persuaded to scrap outmoded factories and to maintain fixed prices and wages. The resuscitation of the Lancashire cotton industry affords an example of what was undertaken and accomplished. There some 10 million outmoded spindles a year were purchased and scrapped; inefficient industries were put on an efficient basis. No department of industrial endeavor was overlooked; coal, steel, and shipbuilding industries were helped, and more than $10,000,000 was advanced as a subsidy to the merchant marine. The recovery of fuel oil from coal was undertaken, while plans for the development of electrical energy throughout the country were fully considered and are now under way.

In agriculture the Government was not less active. For products such as milk, butter, cheese, eggs, poultry, potatoes, pigs, and bacon, marketing boards have been set up to regulate production, distribution, competition, and prices. In the case of hops a monopoly was established which gave the existing producers security by preventing any other producer from entering that field. Many other instances are available in which individual liberty and rights were sacrificed, controlled, and regulated for national well-being. To induce the production of wheat a price of $1.40 a bushel was guaranteed for all home production, and farmers who had emigrated returned to England to farm at a profit after having gone broke in other countries.

A close examination of the activities of the British Government indicates that in commerce, industry, and agriculture, in fact, in all lines of domestic and international trade, the Government of Great Britain have followed a policy of regulation and control, supported by widely distributed and adequate subsidies and measures of financial assistance just as far reaching as the program followed by the Roosevelt administration. Sugar-beet growers, milk producers, herring fishers, cattle and hog producers, and many others have been definitely subsidized to induce production at home.

But that is not all. Anticipating the unemployment problem, as early as 1912 Great Britain passed her first unemployment-insurance bill, and when the crisis came she proceeded to finance on a three-way basis the bulk of unemployment relief due to the depression. She financed it, first, to alleviate destitution; next, to maintain consumers' buying power, and, third, to assist in maintaining an available supply of labor for industry. Outstanding in the

recovery program is the immense housing activity that has been carried on since the close of the war. Since the armistice 2,700,000 houses have been built in Great Britain, enough to house the entire population of Canada. During the last 4 years a million houses have been built in England and in Wales. Some will say that they were not subsidized, but over half of those houses received some measure of assistance from national or local governments. Not content with this, the British Government have now laid down a slum-clearance program designed to eliminate slum conditions in every large city in Great Britain within a 5-year period. In the realm of education, health protection, and social services generally, the British Government has given a definite lead. The national board of education is the first step towards the recognition of education not only as a national responsibility but as a great national opportunity. Education has been extended to include a vast scheme of physical training, and the playing fields of the public schools have now been established as part of the common schools of England. Health insurance, superannuation allowances, and pensions have been extended and encouraged. Wage cuts made under the deflationist policy have been restored and the civil-service list, which was substantially reduced, has been restored and increased.

FISCAL POLICY

This vast program of recovery was developed and financed by men who faced the problem as a permanent one. It was financed in this way: The reduction in interest rates on the national debt made that field of investment less attractive to the private investor. By the system of financing the Government with direct issues of Bank of England notes as national currency, and by treasury certificates and low rate short-term loans, the opportunity for investment of private capital in national securities was further restricted. The British exchequer in cooperation with the Bank of England secured the active cooperation of the merchant banks, loan and trust companies, insurance companies, building societies, to the end that all capital was made available at rates of interest which made the circulation of money a practical problem of administration well within the power of government. By repudiating deflation and resorting to a system of managed currency and planned economy Great Britain has proven that the control of inflation is within the administrative powers of modern government. By way of contrast may I point out that during the period the deflationists were in control in Great Britain the construction of the *Queen Mary* was delayed. The statement was made that the necessary money to carry out such a program could not be produced. But when there was a change of policy funds were found, with the result that the great vessel was completed and has been launched, demonstrating the powers of the people of Great Britain not only to rule the waves but to maintain the freedom of the seas.

No longer are the people of Great Britain distressed or downhearted. Under a policy of managed currency and controlled inflation, notwithstanding the jangling discords of Europe they are facing a threatening world with their old-time courage and fortitude. When we want something to follow I think we might well look to the people of those islands, whose resources and opportunities are far less than ours. Surely we can get inspiration from them. No sooner was the *Queen Mary* off the ways than the Government announced a national defence program involving an expenditure of $1,500,000,000. In this program they are strengthening their navy, their air force, their army, and every branch of their defense service. They are proceeding to establish all industry in Great Britain so that it may be readily converted into the service of national protection. They are not only assisting industry to serve the nation effectively but preparing an army of trained men and women who will be available to meet any emergency that may arise. True, they call this activity a program of national defense, but the fact remains that it will give employment to a vast army of men and women who, were it not for the program, would not be employed. They have made no mistake about the permanency of the problem, and they have not made the mistake of suggesting that the bills they pass be done away with in 1 year's time. I know many people will say that the condition in Great Britain is not analogous to that in Canada. But let us see what points in their general problem are similar to those in Canada.

Competent and unbiased authorities inform us that Great Britain's recovery since 1932 has put new heart into the nation. This year the registered unemployment is the lowest in 5 years. The index of general business activity has reached the 1929 level, and for the last 2 years the budget has shown a surplus. Let those who say that the situation is not analogous consider what has taken place in the United States. May I point out that during the last 5 years we have as a nation spent $199,000,000 on unemployment relief. If we had undertaken to solve the problem on the same basis as was followed in the United States, our proportionate expenditures, when compared with those of that country, would be between $1,500,000,000 and $2,000,000,000. The fact is that we have spent comparatively nothing on unemployment relief, and that is why the situation is so disastrously acute today.

Mr. Clark. It seems to me that someone before this committee last year, perhaps not in the hearings, but at any rate I have a recollection that someone used Sweden as an example of the most forward-acting country along these lines.

Mr. Owen. Sweden has been taking great pains to establish a currency of uniform purchasing power, but it made the grave mistake of stabilizing on the low price level of the depression, thereby injuring its debtors. Finland, on the other hand, stabilized on the expanded price level at the end of the World War, which accounts for its prosperity and the meeting of its debt payments to the United States.

Mr. Clark. Is there any country now that issues directly its own money, such as you advocate and such as I am inclined to agree we are coming to?

Mr. Owen. No; not that I know of. Abraham Lincoln assisted in creating the greenbacks.

Mr. Clark. Was not the only fundamental trouble with the greenbacks that they did not provide sinking funds to retire them?

Mr. Owen. There was no necessity whatever for retiring greenbacks. They should never have been retired. They should always be used as a medium of exchange, because the people are compelled to have a volume of the medium of exchange with which to produce and consume. The Government notes of 1861 were receivable for all debts and dues and circulated at par with gold, while the greenbacks not being receivable for all debts and dues fell to 40 percent of their face value.

Mr. Clark. Assuming, of course, that you find a good place to stop.

Mr. Owen. But a good place to stop in the expanding of production is better than to stop at the bottom of the depression.

Mr. Clark. Of course, I agree with that, but you cannot issue greenbacks indefinitely. You must keep your money issued in step with the productive and consuming capacity.

Mr. Owen. That is right, and the Congress would have in charge of that determination a competent board representing the public interest and carrying out that policy, but that policy must be declared by Congress and not again be left to be perverted by the Federal Reserve Board, as they did in 1921, over nine protests by me on the floor of the Senate.

Mr. Clark. At that time, of course, the Federal Reserve Board possibly did not have the necessary control.

Mr. Owen. They exercised the control through their relationship with the Federal Reserve council and 36 class A directors in a secret meeting in this city on May 18, 1920, when they agreed upon this policy of contraction.

Mr. Clark. But they were under the domination of those 36 class A directors.

Mr. Owen. I do not think so. They were dominated by them, but under the oath of office that they took they were to sustain the rights of the people of the United States and to uphold the Constitution of the United States, which provided for governmenal control of this matter. They forgot it or overlooked it; I do not know.

Mr. Clark. Up to this last year, they did not have any power and they wanted more.

Mr. Owen. I am in favor of giving them power, but also I want them to perform their duties in the interest of this country, not to divert that power against the interests of this country.

Mr. Clark. I think that we all agree with that.

Now, as to your statistics showing the farm income being out of line with the national income——

Mr. Owen. Those figures are taken from Government records.

Mr. Clark. Yes, but I assume that they have reference to the cash income. Is that correct?

Mr. Owen. Yes.

Mr. Clark. Of course, the farmer is probably in a peculiar economic situation, in the respect that he has an income in excess of his cash income.

Mr. Owen. That is right.

Mr. Clark. He has his food.

Mr. Owen. Yes, and if he did not have that he would be completely ruined.

Mr. Clark. I appreciate that, but at the same time I call attention to the fact that until you take the farmer's full income you do no have an accurate comparison.

Mr. Owen. Yes, and many men have said, and I think it is true, that farming is a mode of living that they find happiness in, in the young animal life and the plant life around them, which has a joy of its own, and that makes them endure with marvelous patience the denial of rights to which I have called attention. The value of their farms and ranches was reduced from 67 billions in June 1920 to about 32 billions now, and the debts which have been unloaded upon them because they do not have an income sufficient to meet the debts have bankrupted hundreds of thousands of farmers.

Mr. Clark. There is no question about that.

Mr. Owen. It is a terrible thing, which I know every member of this committee sympathizes with. We all sympathize with it. We are seeking a remedy. We are seeking relief. We want the unemployed to be able to walk upright, and not to be walking as beggars in our streets. We want them to have the same self-respect that you and I try to have. They are entitled to it. They furnish us our food, and they furnish us with the raw material of which our clothing is made.

Mr. Clark. Senator, could you tell me briefly, as regards this specific measure before us, who drew it? Is this some one man's concept or development?

Mr. Owen. I do not know that. I have had nothing to do with it.

Mr. Clark. I never heard of it until this year, and I have wondered what its background was.

Mr. OWEN. The background of it is the truth which has been expounded for 20 years by Douglas, a great engineer and a great thinker, whose studies have been examined critically by many men.

Mr. CLARK. Yes; but you yourself said that there were several methods or ways of approaching this problem, and we have before us this specific way upon which we will be called upon to vote. That is why I was asking these questions.

Mr. OWEN. I do not know who drew it, but I assume that it was drawn by those who have been studying the Douglas system of social credit.

Mr. CLARK. That is based, you think, on the Douglas idea?

Mr. OWEN. Oh, yes. There is no question about that.

Mr. CLARK. That is all.

Mr. GOLDSBOROUGH. Senator Owen, the committee feels deeply appreciative of your appearing before it and giving us this very useful and fundamental information. I hope that you have not tired yourself in the effort.

Mr. OWEN. Oh, no; this entertains me. I am very pleased to have had the opportunity.

I have written a statement setting forth the effects when the Government shall regulate for the general welfare the money supply, including check money, and I would like to have permission to put it in as an exhibit to my remarks.

Mr. GOLDSBOROUGH. Without objection that will be done, Senator.

EXHIBIT 8

SHALL CONGRESS REGULATE THE VALUE OF MONEY?

(Chapter 7 on an article on money, by former Senator Robert L. Owen, in The Instructor, a monthly magazine, Gardenvale, Quebec, Canada, Apr. 1936:)

SHALL CONGRESS REGULATE THE VALUE OF MONEY?

Certainly if Congress obeys the constitutional mandate, it will regulate the value of money. It has established the machinery already and the presumption is the new Federal Reserve Board, as the agents of Congress, will recommend and create a supply of money as bank credit adequate to fully employ the employable people and stabilize such money in the future by regulating the supply to that end.

Assuming that this is done by gradual steps, it will result in building up the present bank deposits to approximately $69,000,000,000 and gradually increasing these deposits as the future requires.

When this shall have been accomplished by the purchase of Government bonds and other sound bankable assets by the Federal Reserve banks, it will have the effect of transferring the entire public debt to the vaults of the Federal Reserve bank where so much as may be needed can be retained by refunded bonds bearing a low rate not over 3 percent which would be salable to the public in the event the board of governors should find it necessary in the public interest to check any dangerous inflation of credit by the privately owned banks. This would save the taxpayers of the United States not only the interest on such Government bonds and the amortization charges, but the principal of such bonds would cease to be an outstanding obligation in the hands of creditors able to make demand on the United States revenues. It would thus cut down an enormous annual charge on the Budget and assist the Government in balancing the Budget.

A much more important result would follow because when the money supply was expanded to 69 billions, such money in bank deposits, unemployed, and

paying no interest, would seek employment in new industrial enterprises. The profit motive would put such money at work in buying properties, in developing properties, in supplying the unlimited wants of a great Nation, whose demands would have no limit. The tremendous growth of invention and of mass-production machinery, and the desire of the human race for comforts, conveniences, and luxuries, will give full employment to such capital and will enable labor to have shorter hours and higher wages in producing and exchanging commodities and services with each other. Our national production should not only go back to what it was in 1929, it should very greatly increase for even in 1929 there was no expansion of credit in the wholesale commodity market where the all-commodity index was below par. The production in the United States, where the United States used its credit, for the benefit of all the people in the country, should have the effect of very greatly increasing our national production, and along with it, increasing the revenues of the Nation, of the States, of cities and counties, and of corporations and persons enabling a reduction of taxation to take place. The amount of new capital, annually required to be created by the United States, should make unnecessary the high Federal taxes which now annoy and disturb the people. It would make it unnecessary "to soak the rich", or to soak any class of property owner. Nuisance taxes could be and should be abolished.

THE EFFECT ON TAXPAYERS

Under the policy proposed, Federal taxes could be reduced to one-fourth of what they are now because the public debt would be retired without cost and working capital would double, not only Government revenues, but private income and corporate income, and make taxes more endurable. Moreover, the Government of the United States in buying municipal bonds and bankable assets, through the Reserve banks, would make a great earning for the Government to take the place of taxes, which now come out of the pocketbooks of the taxpayers.

THE EFFECT ON BANKERS

Under these conditions, the bankers could expand real-estate loans and commercial loans, and at the same time could have a reserve with the Federal Reserve banks so large that no banker would have any fear of his depositors because his depositors would have their deposits represented by reserves, not of 10 percent, but up to 50 percent or 100 percent. Suppose, for example, that the United States bought its outstanding debt. It would increase the reserves of the member banks about 30 billions, so that they would have reserves of about 36 billions, which would be a 100 percent reserve against 36 billions of loans or 16 billions more loans than they have now. But under stable conditions where business men could make their contracts with dependability, with certainty, that the dollar was not going to change in debt-paying purchasing power, we should have public confidence restored to a maximum. Under conditions of guaranteed stability by our Government, business life would have a new charm. Fear will vanish and men of prudence can undertake great enterprises and carry them through with success. This has been impossible in the past, and with the doubling of Government income, of corporate and private income, with the doubling of our national production, our great banks and our small banks will be the beneficiaries, as they deserve to be, for they fill a useful part, a most valuable part, in our national economy. They will continue to be merchants of credit without having the power to destroy themselves by private uncontrolled and indefensible expansion and contraction of credit through undue optimism, or unwise pessimism.

The banks will still have 50,000,000 depositors, whose numbers and deposits will greatly increase. A service charge of $1 a month on 50,000,000 deposits would make a return of $600,000,000 per annum, and the depositor should be subjected to a service charge sufficient to adequately compensate the bank, and leave the bank also its earnings arising from interest. One of the evils which has afflicted the banks and their borrowers in the past, has been rates of interest which deprive the people of reasonable return for their services. The people of Belgium prior to the World War, for 50 years, had an interest rate of 3 percent without a break, and our banks are now lending money to the United States Government at an incredible low rate. The interest rates to the United States people should be reduced, for it is the interest on $250,000,-

000,000 of private, corporation, and Government debts that is taxing the American people at the rate of a billion dollars a month. Under the new plan of constitutional money, the banks would have a stability and prosperity they have never known. Under the blundering management of our privately owned banks in the United States, we have seen 15,000 of their number destroyed and depositors and stockholders losing their savings by billions of dollars and thousands of boards of directors composed of honest and capable men ruined in reputation, from causes of which they were innocent.

THE EFFECT ON BUSINESS MEN

When business men are absolutely assured of stability in business; that the people at all times will have an adequate amount of money with which to buy the products and services of each other; when they know that the danger of bank failure has ended; when they know that they can get credit in reasonable amounts for productive purposes and that business life and business enterprise are the basis of dependable security, business life will become a joy to self-respecting, industrious, honest men. The ghastly record of business failure will cease.

THE EFFECT ON INTERNATIONAL EXCHANGE

When America, by public control of credit, restores this country to maximum employment and production, and stable conditions of credit, and a dollar whose uniform, permanent, debt-paying purchasing power is guaranteed, our production would far surpass anything of the past when we have a stable, dependable measure of value and medium of exchange in the dollar. Backed by the opportunity of converting that dollar into gold at $35 an ounce, for international trade purposes, the American dollar will become the standard measure of value for the whole world. Gold will then have been made a stable measure of value, not only in our foreign commerce, but gold will have a dependable debt-paying purchasing power, because it will be pegged to the American dollar at $35 an ounce. An ounce of gold will be stable in its debt-paying purchasing power, because it will be 35 times a stable dollar. When you have an inch measure defined by law and a yard by law is made 36 times an inch, your yardstick is dependable because you have a dependable measure, in the inches of which it is composed. The French franc should then be stable in its debt-paying purchasing power so long as it is freely exchangeable for gold. But, if the French franc is greatly expanded and ceases to be redeemable in gold, or to have the right to purchase gold at the rate of $35 an ounce, the French franc would cease to be stable. Any nation can follow our example and regulate the value of its own currency by regulating the supply in relation to the demand, but we can never have any assurance on this point and for that reason should never peg our currency to that of France, Great Britain, Italy, Germany, or Russia. The advice of Washington to avoid entangling alliances should apply with great force to our monetary unit. We haven't had understanding enough yet to stabilize our own money, and until we do and until the other nations of the earth have shown an equal capacity to regulate and stabilize their own currency, the idea of international stabilization is not only preposterous, but a fraudulent suggestion, undeserving of serious consideration. Let each nation stabilize its own currency. We are in a position to give the world a standard measure of value, because we have over $10,000,000,000 in gold and the balance of trade would be in our favor in the future as in the past, when we return to normal condition of financial and commercial health.

THE EFFECT ON LABOR

When the Government creates an adequate supply of money to furnish all the working capital required by our people for transacting the business possible in this country, under favorable circumstances, there would be available the money that is needed, with which to employ all employable people and pay them good wages for reasonable hours. Moreover, when all the people were employed at labor, producing the goods and services needed by each other, there would be twice as much of such goods and services and of wealth for the producers to consume as consumers. The producers and consumers are the same people and all they need is an adequate supply of money to enable them to produce and exchange their products and services.

THE EFFECT ON COST OF LIVING

The labor leaders have been frequently used against their own interests by being told by their money masters that the expansion of the money supply would raise the price of commodity and create a high cost of living without creating at the same time higher wages, better hours, and stability of employment. This fallacy, which should be transparent, is fully met by the evidence of the last two decades. It was on the pretense of "a persistent attack on the high cost of living" by "a courageous and intelligent contraction of credit and currency" (Republican platform, June 10, 1920) that elected Harding with the immediate result of throwing 5,000,000 people out of employment and having labor grind the face of labor by cruel competition. In the last depression, the contraction of credit has thrown 15,000,000 people out of employment, and brought them face to face with starvation and public and private charity. Furnishing the people with an adequate supply of money would double the value of their production and greatly increase the volume of the things which labor will then consume. When the volume of commodities doubles it has a tendency to reduce the price by competition.

THE EFFECT UPON THE RICH

The plan herein set forth, in doubling the production of wealth, would give greater opportunity to those whose ambition leads them to the further acquisition of wealth. When you double the creation of wealth, you double the opportunity, for those who desire to acquire more wealth. But there would be this difference. Everyone would have an equal opportunity. The opportunity which a few have had in the past of creating wealth for themselves by taking it from others would no longer exist. The old system taught some people to believe that the more they took from others the more they had for themselves, whereas the fact of the matter is that the more we help those about us to help themselves the more we have for ourselves and the more enjoyable does life become.

Moreover, the plan proposed would cut down the taxes of the rich by cutting down the needs of the Government for higher taxes.

It would do much more than this for the rich. It would remove the menace of crime which is created by national distress. It would remove the danger of a change of government, leading us to Socialism, Fascism, Nazism, or Communism. It would establish forever the highest form of an intelligent, peaceful, happy democracy, where all the people could cherish each other in bonds of mutual respect and affection.

THE EFFECT UPON WOMEN

Men transact the business of life normally, but women are the creators and preservers and custodians of life itself. Women have charge of the family purse, and they feel far more keenly than men the effects of a cruel depression and contraction of mony, which deprives them of the opportunity of feeding, clothing, sheltering, nurturing, educating their babes and children, and they suffer with deepest anxiety the distress which faces the father when he is not only thrown out of employment, but finds it impossible to sell his labor at any price. His inability to get the necessities of life for his wife and children, is a stark, grim tragedy, which the mothers of the land most deeply feel. When the government of a country discharges its constitutional duty of creating an adequate supply of money and of regulating the value thereof, women will be among the chief beneficiaries.

Mr. Goldsborough. Senator Owen, of course in considering the validity of a measure, it is necessary always to try to justify it in a social sense as well as in a practical sense. You concede, do you not, that inventions which do away with the necessity for human drudgery are the possessions of all of the people, very largely?

Mr. Owen. Yes.

Mr. Goldsborough. And you think that society as a whole should inherit the benefit of these inventions?

Mr. Owen. Yes; certainly.

Mr. GOLDSBOROUGH. And that therefore national dividends, which are created by a discount on retail prices on articles which go directly to the consumer, and which have been produced by this increased mechanization, are not a dole, are not charity, but are something that society as a whole is entitled to the benefit of?

Mr. OWEN. Certainly.

Mr. GOLDSBOROUGH. That is one of the difficulties that we are confronted with.

Mr. OWEN. I think it might be well to put into this record the monetary policy of Abraham Lincoln. because he had a wonderful brain, and he stated it wonderfully.

Mr. GOLDSBOROUGH. We would be glad to have you do that.

(The statement referred to is as follows:)

EXHIBIT 9

LINCOLN'S MONETARY POLICY

In a recently published volume, Conquest of Poverty, by G. G. McGeer, of the Canadian Parliament, he presents in detail President Lincoln's monetary policy. He says:

"In the following synopsis, I have scrupulously maintained Lincoln's ideas. His words and phraseology are used except where the change has been necessary to extend Lincoln's conclusions to bank credit, now used through the check system, which was not in common vogue in his time, and to make his observations applicable to monetary practices that have since developed, and were not in operation in his day, but to which his ideas, nevertheless, apply.

LINCOLON'S MONETARY POLICY

"Money is the creature of law and the creation of the original issue of money should be maintained as an exclusive monopoly of National Government.

"Money possesses no value to the State other than given to it by circulation.

"Capital has its proper place and is entitled to every protection.

"The wages of men should be recognized in the structure of and in the social order as more important than the wages of money.

"No duty is more imperative on the Government than the duty it owes the people to furnish them with a sound and uniform currency, and of regulating the circulation of the medium of exchange so that labor will be protected from a vicious currency, and commerce will be facilitated by cheap and safe exchanges.

"The available supply of gold and silver being wholly inadequate to permit the issuance of coins of intrinsic value or paper currency convertible into coin in the volume required to serve the needs of the people, some other basis for the issue of currency must be developed, and some means other than that of convertibility into coin must be developed to prevent undue fluctuations in the value of paper currency or any other substitute for money of intrinsic value that may come into use.

"The monetary needs of increasing numbers of people advancing toward higher standards of living can and should be met by the Government. Such needs can be served by issuing by the issue of national currency and credit through the operation of a national banking system. The circulation of a medium of exchange issued and backed by the Government can be properly regulated and redundancy of issue avoided by withdrawing from circulation such amounts as may be necessary by taxation, redeposit, and otherwise. Government has the power to regulate the currency and credit of the Nation.

"Government should stand behind its currency and credit and the bank deposits of the Nation. No individual should suffer a loss of money through depreciated or inflated currency or bank bankruptcy.

"Government possessing the power to create and issue currency and credit as money and enjoying the right to withdraw both currency and credit from circulation by taxation and otherwise need not and should not borrow capital at interest as the means of financing governmental work and public enterprise.

The Government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity.

"By the adoption of these principles, the long-felt want for a uniform medium will be satisfied. The taxpayers will be saved immense sums in interest, discounts, and exchanges. The financing of all public enterprise, the maintenance of stable government and ordered progress, and the conduct of the Treasury will become matters of practical administration. The people can and will be furnished with a currency as safe as their own Government. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power" (pp. 186–188).

Mr. Geer, the author of the book, adds: "Here, then, we find that Lincoln propounded the monetary policy needed today.

Mr. Reilly. May I ask the Senator a question?

Mr. Goldsborough. Certainly.

Mr. Reilly. You appeared before this committee at the last session of Congress in favor of another Goldsborough bill, did you not?

Mr. Owen. You will have to identify it. He has introduced a good many.

Mr. Reilly. You remember that you appeared when we adopted the banking bill of 1935?

Mr. Owen. Yes; I do.

Mr. Reilly. What is the difference between this Goldsborough bill and that bill?

Mr. Goldsborough. Senator Owen was not in favor of that Goldsborough amendment. Senator Owen solicited the Oklahoma delegation and got them to vote against it, and that defeated it.

Mr. Owen. The amendment was a policy amendment that I thought to be unsound. I did not know that the vote of the Oklahoma delegation defeated the amendment, but I am glad that it was done.

Mr. Reilly. Senator Owen came in in 1935 and favored your bill?

Mr. Goldsborough. No; it was the amendment that I introduced. That is what you are speaking of, and he was against it.

Mr. Williams. The amendment that Mr. Goldsborough offered on the floor was defeated.

Mr. Reilly. Have you considered this bill? I think the Senator ought to come before the committee and discuss this bill.

Mr. Owen. I would be very glad to, but it was read to me last Friday, and I have been deeply concerned in this matter for 40 long years. I was president of a bank when I got a circular letter from the American Bankers Association in March 1893 urging me to contract credit, and to bring pressure to bear on my customers and have them petition Congress to repeal the Silver Purchasing Act, because it was disturbing confidence.

That circular letter caused a panic, caused my bank to lose one-half of its deposits, and I thought of the matter very much and I began to study it, and in 1896 I went before the Democratic national convention and I demanded that the platform should contain a provision pledging that party to the protection of this country against future panics, and I offered a plan by which it could be done. But it was defeated by a lack of understanding.

In 1898, 2 years afterward, I went to Europe, and I talked to the governors of the Bank of England very intimately and I went to France and I talked to the governors of the Bank of France inti-

mately, and I did the same thing with the directors of the Reichsbank in Germany, and I came back and wrote a series of articles showing how they stabilized currency and credit in Europe, and how that could be done in our own country.

In January 1907 a remarkable thing took place. A man named J. A. Ownby, to whom I had loaned or given some money some years before, met me in the marble room of the Senate, and, to my astonishment, he repaid me the money that I had given to him or loaned to him many years before. I had lost track of him, and he drew me to one side, and he told me that he was then connected with an international banking house, and that he could give me some information upon which I could greatly profit if I wanted to. I asked him what it was. He said, "There is going to be a big squeeze on in stocks and bonds." That disturbed me, because I was still actively interested in a bank in Oklahoma. I said, "How much of a squeeze?" He replied with a grin, "Just enough of a squeeze to make the fellows let loose that can't hold on."

It came to pass. In that year, 1907, I was elected to the United States Senate. There came up in the Senate the Vreeland-Aldrich bill. Nelson W. Aldrich, chairman of the Finance Committee, made a wonderful speech in which he described the enormous disaster that had occurred. He offered a cure for panics for money, the Vreeland-Aldrich bill, for an elastic supply of money. I discussed that bill in a 3-hour speech on the 25th of February 1908. I pointed out the correct principle in a sound banking system—an elastic supply of money and stability in the purchasing power of money.

I was unable to make any progress in amending the bill, but in talking privately with Senator Aldrich I urged him to agree that there should be provided a commission to give a thorough study to the money question, so that the country might know the truth. He agreed to it, and on the floor of the Senate on the 25th of March 1908 I requested Senator Aldrich as Chairman of Finance, who had charge of the Vreeland-Aldrich bill, to amend it by providing for a commission to thoroughly study the monetary systems of the world, and he then and there agreed to it. Thus was established the National Monetary Commission. It resulted in 32 volumes of reports in connection with 4 years of studies; and there was collected a library of 2,500 copies of auxiliary books. It was the beginning of the formation of an informed public opinion which led to the Federal Reserve Act.

The manner in which the contraction of credit took place monthly by the weekly reporting banks is submitted as exhibit 10.

EXHIBIT 10

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, April 22, 1936.

MR. ROBERT L. OWEN,
Washington, D. C.

DEAR SIR: In response to your telephone request, there are given below total loans of weekly reporting member banks in 101 leading cities on the first (Wednesday) report day in the month, July 1929–April 1936:

[In millions of dollars]

1929	
July	16, 925
August	17, 044
September	17, 150
October	17, 428
November	18, 489
December	17, 538
1930	
January	17, 041
February	16, 630
March	16, 547
April	16, 913
May	16, 852
June	17, 038
July	16, 960
August	16, 906
September	16, 830
October	17, 013
November	16, 806
December	16, 516
1931	
January	16, 064
February	15, 668
March	15, 441
April	15, 382
May	14, 922
June	14, 730
July	14, 691
August	14, 506
September	14, 398
October	13, 858
November	13, 510
December	13, 350
1932	
January	13, 077
February	12, 830
March	12, 588
April	12, 060
May	11, 842
June	11, 631
July	11, 116
August	10, 996
September	10, 812
October	10, 637
November	10, 441
December	10, 364
1933	
January	10, 214
February	10, 166
March	9, 627
April	8, 638
May	8, 872
June	8, 980
July	9, 027
August	9, 064
September	9, 059
October	9, 097
November	9, 126
December	9, 019
1934	
January	8, 915
February	8, 818
March	8, 678
April	8, 746
May	8, 628
June	8, 579
July	8, 523
August	8, 355
September	8, 366
October	8, 269
November	8, 213
December	8, 240
1935	
January	8, 115
February	7, 988
March	8, 192
April	8, 084
May	8, 155
June	7, 992
July	8, 037
August	7, 839
September	7, 861
October	8, 030
November	7, 968
December	8, 156
1936	
January	8, 124
February	7, 977
March	8, 166
April	8, 392

Very truly yours,

E. L. SMEAD,
Chief, Division of Bank Operations.

Mr. GOLDSBOROUGH. Thank you very much, Senator Owen.

The committee will adjourn until half past 2, and at half past 2 we will hear Mr. Carl Strover, of Chicago.

Senator OWEN. I want to thank you for your kindness. [Applause.]

Mr. GOLDSBOROUGH. Thank you very much for appearing.

(Thereupon, at 12:15 p. m., a recess was taken until 2:30 p. m.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

Mr. GOLDSBOROUGH. Mr. Strover, the tax bill is being read for amendment this afternoon, and it will be difficult for Members to get over, but they will all read the record, and I expect that it is well for you to proceed, sir. We all ought to be on the floor, as a matter of fact, and I will ask you, Mr. Shibley, and Mr. Hampden to confine yourselves as closely to one-half hour apiece as you possibly can.

STATEMENT OF CARL STROVER, ATTORNEY AT LAW, CHICAGO, ILL.

Mr. STROVER. Mr. Chairman and gentlemen of the committee, my name is Carl Strover, of Chicago. I am an attorney at law. I have made a study of the money question for a long time.

Mr. GOLDSBOROUGH. You appeared before this committee before, I think, Mr. Strover; did you not?

Mr. STROVER. I do not believe that I ever was before this committee. The chairman at one time read a bill into the Congressional Record which I had prepared. That was on May 29, 1933, but the bill was never introduced.

Mr. GOLDSBOROUGH. Will you proceed in your own way?

Mr. STROVER. I did not come here to talk on this bill—I mean, to Washington. I happened to be here, and, having known Mr. Shibley even since 1896 and Senator Owen for some time, both of them asked me to come before this committee and express my views on this bill.

I am in absolute sympathy with what Senator Owen said about the need of increasing our money supply. This bill does that, but to a far greater extent than would appear on the face of it.

I am also in sympathy, of course, with the purpose of the bill, which comes to the same end as the one I just mentioned, that is, to put more purchasing power into the hands of the people, but when it comes to the details of this bill in other ways, there are many points on which I cannot agree. Some of them are matters of form, of minor importance, but there are a number of matters of substance.

The bill proposes to start off with a 25-percent discount on retail sales to the ultimate purchasers. The total retail purchases in the United States, goods and services, amount to probably forty-eight billion dollars a year, which means four billion dollars a month. Twenty-five percent of that is one billions dollars a month.

The bill also proposes to distribute $5 per month to all citizens and residents of the United States. Figuring them at 120,000,000, roughly, we have another $600,000,000 per month to be distributed.

Now, what is it that is to be distributed? First, the retail discount. The retailers that grant that discount are to deposit their vouchers, showing that they have paid the discount, in the banks, just like cash. The banks will deposit them in the Federal Reserve banks just like cash, and the Federal Reserve banks will receive from the Treasury national credit certificates to an equal amount. Those national credit certificates are to perform within the banking

system the same role as money. They therefore can be used as reserves.

The national consumers' dividend is likewise to come out of these national credit certificates, so we have an increase to start with, each month, of one billion six hundred million dollars by way of addition to our basic circulation, because these credit certificates are just like legal tender. In 5 months we would add eight billion dollars to our basic circulation.

It seems to me manifest that that would be bound to create a very considerable inflation, in my judgment more than ought to take place. True, the bill provides certain checks. The bill in a general way says that there shall not be any undue expansion, and makes certain provisions as to what to do about that.

In the first place, it provides for a retirement fund, as follows:

> In order to effectuate the purposes of this title, a credit certificate retirement fund shall be established for the purpose of retiring from time to time, as hereinafter provided, the Treasury credit certificates herein authorized. For said fund there shall be set aside one-fourth of the national revenues in each fiscal year over and above the amount required to balance the normal budget estimates for that year.

I just wonder how much would have gone into that retirement fund during the last 4 years.

But, ultimately, the remedy is a negative retail discount, which means practically a sales tax. That would require a separate organization not readily workable.

In any event, the moment that these issues became excessive, they would not only have to stop, but might have to be in part retired.

The way it looks to me, this bill is meant to be essentially a deflation remedy—to counteract the deflation that we have had.

Now, the question arises in my mind, is this the best way to remedy the deflation? Is this the best way to regulate the money supply for the future?

By what shall we judge how much money is to be put into circulation?

Production is not a reliable standard. You can always increase production by putting more money into circulation. In Germany, for instance, during the inflation there was feverish business activity. So there was here after the World War, during 1919 and 1920. Business activity is always stimulated by increasing the money supply. Yet productive resources will not be fully utilized, even if you should double the present price level. Would that be desirable? I do not think so.

This body ought to fix a definite price level that we should work up to, and which then should be kept substantially stable. I have recommended for many years the price level of 1926. When in 1927 our Government changed the base of our price statistics from the 1913 price level to the 1926 price level, I congratulated Secretary Davis, and when I saw in 1927 that the price level was materially declining below the 1926 price level, I visited Secretary Davis and asked him to use his influence to the effect that the 1926 price level be restored, because there was a distinct decline of business during that year. I also wrote to President Coolidge in that behalf. I do

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not know whether my efforts had anything to do with it, but in September 1928 we were back at the 1926 level—100.1.

Many of our farmers assert that the 1926 price level would not be high enough; that we ought to go back to the 1920 price level, or 1919, which is something like 50 percent higher than the 1926 price level. The farmers would have been perfectly right if they had insisted on that in 1920, 1921, 1922, or 1923, but at this late date, with all that has intervened, I doubt whether I could conscientiously advocate a return to the 1920 price level. Furthermore, I believe that a higher price level than the 1926 price level is practically unattainable, and therefore I am still advocating a return to the 1926 price level.

In August 1930 the Prairie Farmer, of Chicago, our oldest farm paper, of about 300,000 circulation, asked me to state my views on this matter. I did so, and the Prairie Farmer published them in two leading articles, two different issues succeeding each other, August 9 and August 16, 1930. In those articles I embodied the following bill——

Mr. GOLDSBOROUGH. Are those articles in the Prairie Farmer?

Mr. STROVER. Yes.

Mr. GOLDSBOROUGH. Of those dates?

Mr. STROVER. Yes; August 9 and 16, 1930. They were republished in a little pamphlet by the Prairie Farmer, on its own initiative, and that pamphlet was very widely distributed. In those articles and in that pamphlet I recommended that the act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by adding, after section 14, a section to be known as section 14–a, in which it was to be declared to be a leading purpose of the monetary policy of the United States to stabilize the average wholesale price of commodities in the United States substantially at the average level of the year 1926 according to the Revised Index of the Bureau of Labor Statistics, in order thereby to rectify the price decline suffered since September 1928, to promote economic justice and to steady industry, agriculture, commerce, and employment. The Federal Reserve Board and the Federal Reserve banks were to be directed, under the provisions of my bill, to conduct all of their operations in subordination to that policy, and diligently to use their power over the supply of money and credit toward speedy restoration, in the United States, of the average wholesale commodity price level of the year 1926, indicated by the figure 100 in said Revised Index, toward prevention thereafter, of deviations, from said level, exceeding one percent, and toward prompt rectification of any deviations that might occur.

Four bills were introduced in the following session of Congress, in December 1931 and in the early part of 1932—all embodying the proposition of a reestablishment of the 1926 price level, and stabilization at that level. One of them was the bill introduced by your chairman here, known as the Goldsborough bill.

Mr. GOLDSBOROUGH. Permit me to interrupt you there. You had no connection with my bill.

Mr. STROVER. None whatever.

Mr. GOLDSBOROUGH. I did not know anything about your bill.

Mr. STROVER. I know you did not, but I just want to say that it was a year and a half before your bill was introduced that I drafted this bill, and that it was widely published.

Mr. GOLDSBOROUGH. That may be.

Mr. STROVER. The four bills were introduced, two by Republicans and two by Democrats, and the Goldsborough bill passed the House by more than 4 to 1, but was sidetracked in the Senate, unfortunately. If the bill of your chairman had been passed, this depression would have ended almost immediately.

Mr. GOLDSBOROUGH. I did not mean to say, Mr. Strover, that if I had known of your bill I would not have introduced it. I simply mean that I did not know about it.

Mr. STROVER. I am satisfied of that. The idea of a return to the 1926 price level was also spread around considerably by a number of radio talks that I made in Chicago early in 1931. In response I got many letters from farmers, businessmen, and leaders of farmers. They took hold of it.

Now, the next point that I want to call attention to in discussing this bill——

Mr. REILLY. At this point, let me ask you a question. Is not the gist of both of these bills, Mr. Goldsborough's and yours, to do away with the ordinary functions of banks and find a way to get money to the people.

Mr. STROVER. I would not say that we wanted to do away with the ordinary functions of banks; no. Moreover, this bill does not embody my idea of what we ought to do now. What we ought to do today is not only to stabilize our average wholesale commodity price at the 1926 level, but to cut loose entirely from dependence on gold. We ought to base the value of our money simply on its legal tender quality, combined with a strict limitation of its quantity, so as to keep our domestic average wholesale commodity price stable at the 1926 level.

Mr. REILLY. In other words, your idea is that the value of a dollar should be fixed not by how hard you work to get it, but by the number of dollars that you keep in circulation?

Mr. STROVER. That is the means by which it is to be fixed, but the measure——

Mr. REILLY. And under your system, money is just as good as gold or anything else?

Mr. STROVER. It will prove itself to be more reliable than gold.

Mr. REILLY. Under your theory, it is the number of dollars that affects the industrial life of the country, and not what the dollar is made of?

Mr. STROVER. That is right. Now——

Mr. REILLY. And your criticism is that we do not get the number of dollars that we ought to have; that somebody controls it and that deflation is the result?

Mr. STROVER. It would not be so bad if the control were correctly exercised, though, of course, it is my judgment that the profits from the issue of money, from the function of providing our money, by all means should go to all of the people, through the Government. That could readily be arranged. My idea is this, that the Govern-

ment issue its money in purchase of securities, and impound the securities so that behind every dollar outstanding there would be a dollar's worth of interest-bearing securities. Then, if the price level would go too high, some of those securities would be sold and thereby the circulation would be reduced. To the contrary, if the price level began to go below normal, additional securities would be bought, and thereby more money would be put into circulation.

If that kind of a system, with the gold standard absolutely set aside, had been in operation, for instance, since 1929, then money streaming forth from the Treasury would automatically have offset the contraction of loans and bank credit by the banks.

Mr. WILLIAMS. Is not the system that you outline exactly what we have now under the Federal Reserve System?

Mr. STROVER. Yes; to a certain extent.

Mr. GOLDSBOROUGH. You mean under the act of 1935?

Mr. WILLIAMS. Undoubtedly so; the operations of the open-market committee are just exactly what you are describing, or supposed to be.

Mr. STROVER. Correct.

Mr. SPENCE. And your bill prescribes that.

Mr. STROVER. Yes; but if I may point out the difference, under my bill Congress would prescribe definitely the price level that would be maintained. Under the law, the way it stands today, the Federal Reserve Board is left to use its own judgment, and so far they have kept the price level at about 80 or 79.

Mr. REILLY. If you were on the Federal Reserve Board, and a number of fellows like you, you could do just what you want to do now.

Mr. STROVER. Yes; but even if I were on that Board, I would say that Congress ought to lay down the law and say where we should stabilize, and not leave it to us. That is the business of Congress, and I believe that Congress ought to do that now.

Mr. WILLIAMS. What would you make the standard, the measure?

Mr. STROVER. The average of commodity prices.

Mr. WILLIAMS. Wholesale commodity prices?

Mr. STROVER. Wholesale commodity prices, and the reason for that is this, that——

Mr. WILLIAMS. You would take all of the wholesale commodities? You would not confine it to the basic commodities?

Mr. STROVER. Well, it does not make an awful lot of difference. I would recommend that we use the Index that we have established for years. It is published every week, and I would like to call your attention gentlemen, here to some very startling figures.

Mr. WILLIAMS. Are you familiar with what is known as the Goldsborough amendment, that was submitted in connection with the banking act last year?

Mr. STROVER. I do not know. Maybe I am. I am not sure now.

Mr. WILLIAMS. That, as I understood it, was to make the wholesale price of basic commodities the basis. Is not that right, Mr. Goldsborough?

Mr. GOLDSBOROUGH. Yes.

Mr. WILLIAMS. As distinguished from all of the commodities.

Mr. STROVER. Well, the reason why I say it does not make an awful lot of difference is this, that if you take any price level of basic commodities—I do not know what collection you had in mind, but almost any of those basic commodity price indices, such as of Professor Fisher—maybe the chairman had that in mind?

Mr. GOLDSBOROUGH. I do not think Professor Fisher got this up.

Mr. STROVER. I mean that Professor Fisher got up a price index of his own.

Mr. GOLDSBOROUGH. He has a price index of his own, but he has told me that in his judgment the best price index for all general purposes is the one gotten up by the Bureau of Labor Statistics.

Mr. STROVER. That is the way I feel about it. Above all, I feel that we ought not to put before the people anything new in this line. I think that we ought to take the price index that we have used for years. An index like that, with many commodities in it, commodities of minor importance, and manufactured commodities as well as basic commodities is, of course, less sensitive. It will show less variation up and down, but if you make it the law that any deviation from the normal has to be corrected promptly, it does not make much of a difference whether the variations shown are great or small. If you take a number of these different indices and compare their course, during the depression for instance, you will find that they all show declines just about at the same time and they all show rises just about at the same time. I would therefore use the index that we have used for years, so as to eliminate any controversy about that matter.

Mr. WILLIAMS. You think that ought to be the standard of measure?

Mr. STROVER. Yes.

Mr. WILLIAMS. Regardless of what resulted to labor, wages, or anything else?

Mr. STROVER. Let me show you what will result for labor. We can judge from the course of events in the past.

Mr. WILLIAMS. Show me that that will obtain steady employment and steady wages for labor.

Mr. STROVER. Official figures prepared by the Bureau of Labor Statistics, covering employment and pay rolls in the manufacturing industries in the United States, with the average of the years 1923 to 1925 taken as equal to 100.0, show that in June 1920, while the average wholesale commodity price, taking the average for the year 1926 as equal to 100.0, stood at 160.7, employment stood at 111.1 and pay rolls at 124.2.

Then, when the average wholesale commodity in the course of the vicious depression that began in July 1920, declined down to 91.6 in January 1922, employment simultaneously dropped from 111.1 to 82.5, and pay rolls dropped from 124.2 to 69.6.

These figures show clearly that the deflation most seriously affected the workingman and his pay rolls.

Mr. WILLIAMS. How does it compare now with what is was in 1920?

Mr. STROVER. Will you permit me to go over this step by step?

Mr. WILLIAMS. All right.

Mr. Strover. Now, then, the price level rose from 91.6 in January 1922 to 105.0 in April 1923, and forthwith employment rose from 82.5 to 105.0 during the same period. Pay rolls were affected even more. They rose from 69.6 in January 1922 to 107.3 in April 1923.

Thereafter in the course of a year, from April 1923 on, the price level was permitted to sag again about 10 points, down to 95.7 in June 1924. Concurrently employment fell off about 14 points to 91.0 in July 1924, while pay rolls declined 21 points, to 85.7.

Then there was another rise of the price level by about 11 points to 106.5 in August 1925, and forthwith employment and pay rolls rose again—employment from 96.0 in July 1924 to 102.2 in October 1925, and pay rolls from 85.7 in July 1924 to 104.6 in October 1925.

Then followed another decline of the average wholesale commodity price from 106.5 in August 1925 to 93.7 in May 1927; and again employment and pay rolls declined, employment to 98.1 in July 1927, and pay rolls to 98.5 in the same month.

This period was followed by another rise of wholesale commodity prices, from 93.7 in May 1927 to 100.1 in September 1928, and once more employment advanced from 98.1 in July 1927 to 102.6 in October 1928, while pay rolls advanced from 98.5 to 108.2 during the same period.

The commodity price level then remained fairly stable until October 1929, and employment and pay rolls advanced further until they stood at 109.0 and 112.9 respectively, in October 1929.

Then came the stock crash.

That, by itself, affected employment and pay rolls comparatively little. But as deflation progressed with the continual curtailment of bank loans throughout 1930, 1931, and 1932, and the average wholesale commodity price kept on declining, down to 59.8 in February 1933, employment and pay rolls naturally dropped until by March 1933 employment had declined to 58.8 and pay rolls had sunk to 38.8, for the simple reason that it had become more and more unprofitable to manufacture goods and to employ people.

Then, from April to September 1933, due to the abandonment of the gold standard, our wholesale commodity price sharply advanced, from 60.4 to 70.8, and promptly employment and pay rolls jumped upward, employment from 58.8 to 80.0, and pay rolls from 37.1 to 59.1—an advance of pay rolls by about 60 percent in 5 months.

But in the fall of 1933, when the N. R. A. and the A. A. A. went into effect, the advance of wholesale commodity prices was stopped, and by December 1933 employment dropped to 74.4 and pay rolls to 54.5.

Since then there has been a slow and irregular advance of the price level until in March 1936 it stood at 79.6. Employment in March of this year stood at 84.2 and pay rolls at 75.7. These are the latest figures available to me. They show that employment in the manufacturing industry has advanced up to March of this year only about 5 percent over the level that it reached in September 1933, and that pay rolls advanced only 28 percent in 2½ years, as against an advance of about 60 percent in 5 months while prices were vigorously raised in 1933.

Mr. Goldsborough. Before proceeding, if there is no objection, I would like to have that information in the record.

Mr. Strover. If it is agreeable to the chairman, I will furnish a chart covering the years from 1920 to 1935, and for the first 3 months of this year for insertion into the record.

Mr. Goldsborough. That will be satisfactory gentlemen, I take it.

(The chart referred to is as follows:)

Prices	Employment	Pay roll	Prices	Employment	Pay roll
1920:			1925:		
154.4	114.9	117.2	106.0	96.3	95.4
153.9	113.7	115.5	106.4	98.1	100.8
156.0	116.0	123.7	106.6	98.8	102.4
161.9	114.5	120.9	103.4	98.7	100.0
165.0	112.0	122.4	102.6	98.1	100.7
160.7	111.1	124.2	104.2	98.0	98.7
159.4	108.5	119.3	106.3	97.8	96.8
153.9	108.8	121.6	106.5	99.5	99.3
150.0	107.5	119.8	105.8	101.5	98.8
140.6	103.7	115.8	104.3	102.2	104.6
130.0	97.4	107.0	104.4	101.8	104.6
118.7	89.7	98.0	103.4	101.5	105.2
1921:			1926:		
112.4	81.0	82.8	103.2	100.5	100.9
106.0	82.6	81.3	102.5	101.5	105.0
102.9	83.2	81.7	100.5	102.1	106.5
99.0	82.1	79.0	100.0	101.4	104.4
96.3	81.9	77.3	100.5	100.4	103.1
93.8	81.0	75.4	100.8	100.3	103.3
93.3	79.8	71.7	99.7	99.4	99.0
93.8	81.2	73.9	98.7	101.4	103.4
93.8	83.4	73.4	99.6	103.4	104.4
93.8	84.1	72.6	99.1	103.1	107.6
93.2	84.2	71.7	98.0	101.4	104.1
92.6	83.3	73.3	97.4	100.0	103.5
1922:			1927:		
91.6	82.5	69.6	96.6	98.2	98.4
93.6	84.6	72.4	95.9	99.7	104.4
95.5	85.9	74.9	94.5	100.2	105.7
95.6	85.8	73.8	93.7	99.6	104.5
98.8	87.9	77.2	93.7	99.1	104.0
99.0	89.8	80.5	93.8	99.1	102.4
102.5	88.2	78.5	94.1	98.1	98.5
102.6	91.4	83.0	95.2	99.3	101.9
101.2	94.5	87.0	96.5	100.5	101.4
102.0	97.0	89.5	97.0	99.6	102.1
103.0	99.0	93.4	96.7	97.4	98.5
103.4	100.5	95.7	96.8	96.1	99.5
1923:			1928:		
103.1	100.7	94.6	96.3	95.0	96.0
103.8	102.5	97.9	96.4	96.5	101.2
105.0	104.6	102.5	96.0	97.6	102.5
105.0	105.0	103.8	97.4	97.1	100.5
103.5	105.3	107.3	98.6	97.0	101.3
101.7	106.0	107.5	97.6	97.8	101.7
99.8	104.9	103.3	98.3	97.7	99.0
99.4	105.2	103.8	98.9	100.1	103.3
101.8	105.7	104.3	100.1	102.2	104.7
101.4	104.5	106.6	97.8	102.6	108.2
100.7	103.2	104.5	96.7	101.7	105.0
100.0	101.4	102.9	96.7	101.2	105.6
924:			1929:		
100.0	100.2	98.8	97.2	100.8	102.3
100.5	101.5	104.1	96.7	102.9	109.3
99.3	101.7	104.1	97.5	104.1	111.6
98.3	99.9	101.8	96.8	105.3	112.6
97.3	96.8	97.5	95.8	105.3	112.9
95.7	93.8	92.4	96.4	105.6	111.2
97.3	91.0	85.7	98.0	106.1	107.2
99.1	92.1	89.3	97.7	107.9	112.0
98.5	94.4	92.5	97.5	109.0	112.9
100.6	95.3	95.1	96.3	107.7	112.4
101.1	94.8	93.7	94.4	103.6	104.1
103.9	96.1	97.6	94.2	99.8	100.7

Prices	Employment	Pay roll
1930:		
92.5	97.3	95.9
91.4	97.4	98.8
90.2	96.9	98.8
90.0	96.3	97.7
88.8	94.8	95.4
86.8	92.9	92.3
84.4	89.5	84.3
84.3	88.8	83.3
84.4	89.6	84.1
83.0	87.7	82.2
91.3	84.6	76.8
79.6	82.3	75.2
1931:		
78.2	79.6	70.0
76.8	80.3	74.3
76.0	80.7	75.6
74.8	80.7	74.4
73.2	80.1	73.4
72.1	78.4	69.7
72.0	77.0	66.2
72.1	77.1	65.9
71.2	77.4	63.4
70.3	74.4	61.3
70.2	71.8	58.1
68.6	71.0	57.6
1932:		
67.3	68.7	53.5
66.3	69.5	54.6
66.0	68.4	53.1
65.5	66.1	49.5
64.4	63.4	46.8
63.9	61.2	43.4
64.5	58.9	39.8
65.2	60.1	40.6
65.3	63.3	42.9
64.4	64.4	44.7
63.9	63.4	42.9
62.6	62.1	41.5
1933:		
62.0	60.2	39.5
59.8	61.1	40.2
1933:—continued		
60.2	58.8	37.1
60.4	59.9	38.8
62.7	62.6	42.7
65.0	66.9	47.2
68.9	71.5	50.8
69.5	76.4	56.8
70.8	80.0	59.1
71.2	79.6	59.4
71.1	76.2	55.5
70.8	74.4	54.5
1934:		
72.2	73.3	54.0
73.6	77.7	60.6
73.7	80.8	64.8
73.3	82.3	67.3
73.7	82.4	67.1
74.6	81.1	64.9
74.8	78.6	60.4
76.4	79.4	62.3
77.6	75.8	59.1
76.5	78.4	61.0
76.5	76.8	59.5
76.9	78.1	63.2
1935:		
78.8	78.6	64.1
79.5	81.2	69.1
79.4	82.4	70.8
80.1	82.4	70.7
80.2	81.1	68.5
79.8	79.7	66.5
79.4	79.5	65.3
80.5	----------	----------
80.7	83.5	72.1
80.5	85.3	75.1
80.6	84.8	74.5
80.9	84.6	72.2
1936:		
80.6	83.1	72.2
80.6	83.2	72.3
79.6	84.2	75.7

Mr. Strover. This chart presents, side by side, monthly index figures for A. Wholesale Commodity Prices; B. Employment in the Manufacturing Industries; and C. Pay Rolls in the Manufacturing Industries for the Years 1920 to 1935, both included, and for the first 3 months of 1936—all figures being based on Bureau of Labor Statistics.

I might say that if figures for the building industry were included, the showing for the business depression would have been even worse. The bottom dropped out of that, as you all know.

It seems clear from these figures that a vigorous raising of prices by controlled inflation easily could have restored fairly normal conditions, with reasonably full employment, by the spring of 1934, and that the N. R. A. and A. A. A. were unnecessary and harmful experiments. On the showing made by these figures permit me to ask you gentlemen to use your influence to the full so as to bring about a speedy restoration of the average wholesale commodity price to the 1926 level.

Mr. Spence. What is the percentage of the price level now?

Mr. Strover. About 79. I am getting the figures every week. I might add that from them I practically always know in advance what people will say about business getting better or worse.

I would also call attention to the fact that the conditions for labor, as shown by this chart, were the most favorable in the summer of 1929 after a prolonged period of fairly normal prices. During the excessive inflation in the forepart of 1920 labor suffered because pay rolls did not keep up with prices. On the other hand during every deflation labor suffered by a falling off of employment and pay rolls.

Mr. SPENCE. Employment is higher now that it has been at any time since 1931, is it not?

Mr. STROVER. Since 1891; yes. But as far back as 1929 the index ran up to 109.0, and even that was nothing extraordinary, because the base 100.0 of that index represented the average of the years 1923, 1924, and 1925, and 5 years had passed during which population had increased and a considerable shift of population from the country to the cities had occurred.

In this connection I would call attention to the fact that even during the period of comparative stabilization which we enjoyed from 1923 to 1929, employment and production were held back by the everlasting uncertainty concerning the supply of money and credit under which business operated.

The 1926 price level in my judgment can be maintained by proper management within a range of probably 1 percent. Deviations of more than 1 percent should be considered to be excessive. Raise prices to the 1926 price level, and stabilize that level closely by a law providing that any deviation, no matter how small, shall at once be corrected, and you will do more for industry, agriculture, and labor than you have done by all of the experiments of the last 6 years taken together.

Mr. SPENCE. Do you think that the price level of 1926 could be maintained by the machinery of the Federal Reserve System, that is, the open-market operations, the reserve requirements, and the discount rate?

Mr. STROVER. It can be, conditionally.

Mr. SPENCE. It is my recollection that Governor Eccles said that he did not think it could be done. What is your opinion about it?

Mr. STROVER. Well, I will say this, gentlemen, that it can be done; but as long as you have the gold standard, and the Government is compelled to keep all of our money on a parity with a certain amount of gold, we are always subject to what they are doing elsewhere. If there is a pull for gold abroad and we have to pull against that in order to maintain ourselves on the gold standard we may have difficulties, just as we had in 1932 and early in 1933; but there is absolutely no good reason why we should adhere to a gold standard. Great Britain is off of the gold standard now, practically, and so are Australia, New Zealand, the Scandinavian countries, Japan, and most of the South American States.

Mr. SPENCE. The bill that you drafted assumed that we could maintain the 1926 price level even under a gold standard.

Mr. STROVER. Let me tell you about that. In 1922 I wrote a little book, entitled "Monetary Reconstruction", in which I advocated just what I have been telling you about, including the total abolition of the gold standard and the substitution of a paper money that would not consist of promises to pay, but would be simply money of the

United States, legal tender in payment of all debts, public and private. That is the best kind of money that you can put into circulation. By regulating its quantity, you can regulate the domestic price level completely and absolutely.

Now, you ask me why in 1930 I advocated the bill I read to you. Simply because I had been in communication with the authorities here, and knew that under the Hoover administration it would be utterly absurd and foolish to try to do away with the gold standard. So I advocated what I considered the next best thing, the regulation of the price level by means of sales and purchases of bonds, and I believe that in substance it can be done successfully today, though perhaps we might have to abandon the gold standard.

Mr. WILLIAMS. Do I understand that you are in favor of this bill we are hearing now, or against it?

Mr. STROVER. Well, I really have not come to that yet. You gentlemen have asked me a lot of questions.

Mr. WILLIAMS. I will say frankly that I came in after you started. We have been discussing something else entirely since I came in.

Mr. STROVER. Let me refer to the bill again.

Mr. GOLDSBOROUGH. Just for the information of Mr. Williams, my understanding is that until you came to Washington on business a day or two ago, you did not know anything about this bill?

Mr. STROVER. That is not quite correct. I knew a little about it.

Mr. GOLDSBOROUGH. I understood you to say that you did not.

Mr. STROVER. I said that I did not come here to testify. I did not know anything about this hearing before I came here; but I had read what purported to be a copy of this bill.

Mr. WILLIAMS. You may have expressed your views before I came in.

Mr. STROVER. I merely made a few general comments, principally to the effect that this bill was highly inflationary—that it would put into circulation, to start with, approximately 8 billion dollars inside of 5 months, unless the brakes were put on right away. Now——

Mr. REILLY. Just for information, let me ask you this question. Your view is, then, that the panic was caused by a defective monetary system?

Mr. STROVER. Absolutely.

Mr. REILLY. And that the contraction of credits brought on the depression?

Mr. STROVER. Yes.

Mr. RUSSELL. The war had no connection at all with it?

Mr. STROVER. I will put it this way: The war led to speculation and excessive speculation led to credit contraction. Speculation had been carried too far. That speculation was about to collapse, but it was a mistake to contract credit all over the country in order to stop speculation. That should never have been done. If the Congress and the Federal Reserve authorities had had their eyes on the wholesale commodity price level, they would have observed that in July 1929 the price level was below normal, and that by September it had fallen further. Therefore, we should have had an expansion of the monetary circulation, rather than a contraction.

Mr. WILLIAMS. To give them more money to speculate with?

Mr. STROVER. No, sir. That could have been stopped by other means. Supposing that the Federal Reserve authorities had said to the bankers in our big cities, and to all bankers, "You must not loan on stock collateral at an interest rate of more than 2 percent a year." Do you believe that in that case the bankers would have continued to feed that speculation? They would have said, "No, gentlemen, we are not loaning any more money on stock collateral", and then business would have been supplied with sufficient credit. In other words, the brakes should have been applied to the stock speculation alone, and not to the entire business of the country, and that should have been done a year before the collapse came.

Mr. WILLIAMS. What about the loans for others?

Mr. STROVER. They were made mostly through the banks and should have been treated the same way.

Mr. WILLIAMS. It would have been pretty hard to control that, would it not?

Mr. STROVER. I do not think so. Moreover, you can tax stock speculation; that is another means for stopping it. There are half a dozen ways in which you could have curbed stock speculation, in which the brakes could have been put on, without bringing the whole country down to its knees, figuratively speaking. The fundamental money of the country ought to be controlled so as to sustain business production at a fair level, always.

Mr. GOLDSBOROUGH. Mr. Strover——

Mr. STROVER. I know that I am running beyond my time.

Mr. GOLDSBOROUGH. We have other witnesses, and Mr. Williams has asked you a question about this bill, whether or not you are in favor of it, and if you do not mind going into that, and then concluding as quickly as you can——

Mr. STROVER. May I briefly run over what I have in mind?

The bill to my mind is also objectionable because it provides for a huge new bureaucratic machine in the shape of a commission of seven men, to have an annual salary of $20,000 each, extensive staffs to compile more statistics, and so forth. I do not believe that there is any call for that, because, to my mind, the money supply ought to be regulated with reference to the average wholesale commodity price level. The moment you get away from that, you are borrowing trouble one way or another; and might I say here, briefly, that I consider the average wholesale commodity price level the proper criterion, because production is regulated by wholesale commodity prices. They stand nearest to the producer, and if we want full production and full employment, we ought to regulate our money supply so as to keep that price level stable, and not some other price level.

The bill is also defective in that it embodies a conflict of authorities. For example, in section 401 it states:

> In order to establish a system of circulating money which shall at all times conform to the capacity of the industries and people of the United States for the production of wanted goods and services, it is hereby declared to be the policy of Congress to prevent the undue expansion of money as well as to eliminate the contraction of money in times of slackness of trade.

That declaration of policy, by the way, is far too general. Then it goes on——

It is the intent of Congress, whenever deemed necessary by the Federal Reserve Board and its open-market committee, that the present controls over the supply of money through open-market operations and the discount rate shall be employed as heretofore to maintain a balanced-credit structure.

Now, you have the Federal Reserve Board charged with the control of money. Yet here is this Federal Credit Commission charged with similar functions. You have an overlapping there, and a conflict of authority.

Then, taking section 403, it reads—

The Secretary of the Treasury shall use said credit certificate retirement fund, or such portion thereof as shall seem to him advisable, for the retirement of said Treasury credit certificates whenever in his judgment, acting upon the records of the Federal Credit Commission, an unduly expanded monetary condition exists or is impending.

There you have a third agency that is to regulate——

Mr. Spence. Would not that be a delegation of legislative powers?

Mr. Strover. That, of course, is involved in addition to a conflict of authority. But disregarding that question, so far we have three different authorities charged with responsibility for the same thing, and then you have finally, in the same section, the following provision [reading]:

The President is authorized, in his discretion, to establish a negative retail discount rate, not to exceed 20 percent upon all goods and services, except foodstuffs, clothing, household fuels, dwellings and rentals of dwellings.

There you have a fourth agency endowed with responsibility concerning this matter. It seems to me that that is altogether too much in the way of division and conflict of authority.

As a minor matter, I might call attention to section 203, to something there that seems to be decidedly objectionable.

This section, in connection with section 502, makes it unlawful, subject to imprisonment for 1 year, besides a fine, or both [reading]:

(1) To prevent or attempt to prevent, by force, intimidation, threat, promise, or in any other matter, any member or employee of the Commission from exercising the functions imposed upon the Commission.

(2) To induce, or attempt to induce, by like means, any such member or employee to make any decision or order, or to take any action, with respect to any matter within the authority of the commission.

The words "in any other manner" would cover even persuasion, and under that clause, a newspaper writer or anybody else who denounced the commission for an action that they had taken, and suggested that they should act differently, would be liable to fine and imprisonment. Such clauses are contrary to sound public policy. They go entirely too far.

Now, as to the whole bill, the entire mechanism of it is based upon an account in the Treasury, to be known as the national credit account, which is to be credited with the unused capacity of the people and industries of the United States to produce goods. Of course, that would put absolutely nothing into the Treasury. That account would be built on nothing more than fiction.

Mr. Goldsborough. Why would you want to put anything in the Treasury?

Mr. Strover. I do not want to, but I would prefer not to have the appearance created that something is to be put in. I want to make it plain that these certificates that are to be issued by the Treasury, while they are charged to an account there, will be issued against an account that in fact has nothing in it: that therefore the certificates will be pure fiat money, and nothing else.

Mr. Goldsborough. What is your objection to so-called fiat money?

Mr. Strover. None at all, if it is understood what it is. In fact, I am an advocate of fiat money, so that does not frighten me. But I don't like the idea of having an account established that pretends to represent something substaintial when in fact it represents nothing but fiction. I would like to have it clearly understood, that this account will have nothing back of it.

Mr. Williams. What is the difference between this system and the issue of Treasury notes, greenbacks?

Mr. Strover. I can not see a great deal, except the manner in which the money is issued.

Mr. Russell. And the retirement fund.

Mr. Strover. The retirement fund provided by the bill is utterly insufficient. If it had been in existence during the last 4 years, there would be nothing in it. One of the things that I would like to have the committee understand, is that the credit certificates to be issued under this bill will be simply unsecured Treasury notes, only different in form.

Mr. Goldsborough. Is there any objection to that?

Mr. Strover. Will you pardon me just a moment? In summing up, I shall cover that matter. But first permit me to call attention to some other defects of this bill.

There seems to be a contradiction between section 8 and section 302.

Section 8 provides for the payment of a national consumers' dividend of $5 per month to every citizen and bona fide resident of the United States, and for the meeting of all payments of this dividend by the issue of Treasury credit certificates.

Section 302 provides that in no case shall the face value of the national credit certificates be issued in excess of the total write-up of the said retailers accounts.

Assuming, as seems proper, that "national credit certificates" in section 302 mean the same thing as "Treasury credit certificates" in section 8, section 302 would prohibit the issues contemplated by section 8.

Then again in section 305, at page 18, this bill provides as follows:

> It is the intent of this act to control the volume of the means of payment for goods and services in harmony with the ability of the whole Nation to produce and consume them on a rising standard of living, so that excess expansion of money and a consequent undue advance in the price level shall not occur, and that the present system of issuing money through private initiative for profit, resulting in recurrent disastrous inflations and deflations, shall cease.
>
> To such end the privilege of the commercial banking system to make loans and issue deposits against them on the basis of fractional reserves is hereby rescinded.

That means that on the passage of this bill, the banks shall have and keep a 100-percent reserve. Where will they get it?

Mr. Goldsborough. May I say this, Mr. Strover, that I think that your criticism there is justified. Of course, all of the details of that

kind in a piece of legislation, when it comes before a legislative committee, would naturally be worked out. For instance, the most that a legislative committee would probably do would be to give the Federal Reserve Board the power to regulate the reserves.

Mr. Strover. They have got that now up to the point where they can double it, but this goes much further.

Mr. Goldsborough. It goes as far as the House could give it to them, but the Senate did not want to do anything at all. So, as to a detail like that, while it is subject to the criticism that you have made, I want to assure you that in my opinion the House of Representatives would not let a provision of that kind get by without adjusting it to the actual conditions.

Mr. Strover. As long as I am criticizing the bill, I think that it is a very important point to call attention to.

Mr. Spence. I believe that Professor Fisher advocates a 100-percent reserve.

Mr. Strover. And the worst of it is that the bill does not show how the reserves are to be made up. The national credit certificates cannot be issued beyond a certain point.

Then there is another difficulty in here in that connection, and that is this [reading]:

> The privilege of the banks to rediscount commercial paper and borrow upon Government securities at the Federal Reserve banks shall be limited to collateral actually owned by them.

Then, in section 306 [reading]:

> It is hereby enacted that the Comptroller of the Currency shall at all times be prepared to meet the requirements of the banks for such currency, legal tender for all debts, public and private, as may be called for withdrawal from them by their customers.
>
> Transfer of collateral to offset the drafts of currency so demanded shall not be required of the banks. The privilege of creating deposits upon a fractional basis of reserves having been withdrawn from the banks in the interest of sound national money, it becomes the responsibility of the National Government to see that the primary bank deposits already brought into existence under the existing system can be validated.

The only thing that I can make out of it is that the banks are given blanket authority to draw on the Treasury for any amount of money, and do not have to put up any collateral.

Mr. Goldsborough. No; the idea of that is this, that these credit certificates, in times of stress, when there is a demand on the banks for cash, would under that condition be redeemed by the Comptroller's office with what you have spoken of as fiat money.

Mr. Strover. But it does not say anything like that.

Mr. Spence. Where is that that you are reading from?

Mr. Strover. Beginning at the bottom of page 19, and the top of page 20, and then the next paragraph [reading]:

> Transfer of collateral to offset the drafts of currency so demanded shall not be required of the banks.

There is not anything said about national credit certificates.

Again, first you have the language that—

> it is hereby enacted that the Comptroller of the Currency shall at all times be prepared to meet the requirements of the banks for such currency, legal tender for all debts public and private, as may be called for withdrawal from them by their customers.

Then it says:

> The banks shall return all currency that has been withdrawn for validation of deposits to the Comptroller when redeposited.

Supposing that it is not redeposited? Then what?

Then it goes on—

> excepting only such working reserves of normally circulating currency as may be required. Nothing in this act shall be interpreted as releasing the banks from obligations that they have already incurred to the United States Treasury or Federal Reserve banks for currency now in their possession.

By implication that means that they are to be released from obligation for currency *not* now in their possession. Anybody would read it that way. Anyway, all of these policies need clarification and considerable rewriting, in my judgment.

Mr. Clark. In connection with this $5 dividend, I notice it says that it shall be paid to all citizens of the United States on the first of every month. Would that include children?

Mr. Strover. Surely; they are citizens.

Mr. Clark. Of course, they could not own money. It would have to be paid to their parents, and I am not sure whether their parents could spend it, legally.

Mr. Strover. That is a question; it is a minor question, though.

There is another penalty clause, section 307, which reads:

> Improper use of the certificates herein provided to be issued shall be a misdemeanor and shall be punished by a fine of not exceeding $10,000 and imprisonment for not exceeding 5 years.

I think any court would declare that clause void for uncertainty. "Improper" should be more clearly defined.

The bill, furthermore, right then and there, repeals the entire National Deposit Insurance Act.

Mr. Goldsborough. Suppose that it did?

Mr. Strover. If it put 100 percent reserve into force, and did it in a proper way, so that the thing was in full operation, then the deposit insurance would become superfluous.

Mr. Goldsborough. Of course, the deposit insurance, Mr. Strover, in the judgment of this committee—and I think that I can say this for the committee—is one of the most constructive things that we ever did.

Mr. Strover. I think so.

Mr. Goldsborough. But we all realize that if the depositors in the banks of the country all went after their deposits at the same time, the Deposit Insurance Corporation would be utterly ineffective and would not function.

Mr. Strover. Yes.

Mr. Goldsborough. So it is a good deal like the system itself; it is sort of a legalized racket.

Mr. Strover. In a fashion; yes. I guess that the conservative bankers would denominate it that way.

Mr. Reilly. Is it not a fact that deposit insurance has minimized to a large extent the results of deflation that came from the fear of bankers?

Mr. Strover. I think it has to some extent, and its tendency is to do away with hoarding to a very large extent. There is no question about that. But it cannot raise and has not raised the price level sufficiently.

Mr. WILLIAMS. To what amount would this national credit account have to be established, according to your investigation? What amount would that require? The standard is the difference between the unused productive capacity as it exists, and——

Mr. STROVER (interposing). Which is more or less up in the air, and while they want to put a certain figure to the credit of that account in the Treasury, it does not mean anything except by way of a figure. On the other hand, the provisions of the bill are positive that for 3 months the 25-percent discount is to be paid, and the $5 national dividend every month for a year. The two together amount to about $8.000.000,000 in 5 months.

Mr. WILLIAMS. But the point in my mind is how you are going to arrive at this credit account that is to be set up in the Treasury Department for the use of the consumers and the retailers all over the country.

Mr. STROVER. They provide here for a statistical bureau that is to figure that out, but it does not make much difference whether they guess that just right or do not. Unless there is a difference of at least 20 percent between productive capacity and consumption, the retail discount, according to the fourth paragraph of section 4, is not to operate. That is a matter of detail for the committee to work out.

Mr. WILLIAMS. What is our productive capacity now?

Mr. STROVER. Well——

Mr. WILLIAMS. What is the percentage?

Mr. STROVER. Mr. Brougham here, who, I understand, drafted the bill, agreed with me when I said that at least $48,000,000.000 worth is sold at retail in goods and in services each year.

Mr. WILLIAMS. What percentage of our full productive capacity is used at the present time?

Mr. STROVER. If I might make a guess at it, I would say that we are barely operating at 50 percent. It might be only one-third. I do not know.

Mr. WILLIAMS. Then it would require in this credit account, in round numbers $22,000,000,000?

Mr. STROVER. It does not cost anything to put $50,000,000,000 there, or $20.000,000,000.

Mr. SPENCE. What is the philosophy of the national per capita consumer's dividend? That would amount to about $8,000,000,000 a year, would it not?

Mr. STROVER. That is right.

Mr. SPENCE. What is the philosophy of that? Have you considered that?

Mr. STROVER. Yes. After I get through with this here, I want to come back to the basic proposition. Mr. Brougham was quite strong for the proposition of having only the consumers' discount and not having the consumers' dividend. Mr. Shibley, on the other hand, rather favored a consumers' dividend and not a consumers' discount.

Mr. GOLDSBOROUGH. For your information, there are a great many who think that the consumers' dividend can be justified on scientific and social principles. I am one of those. But the question arises in a great many minds as to whether or not any dividend of that kind ought to be confined to the aged and indigent, and I sympa-

thize myself with that particular view. But I did not know how much you had discussed this matter.

Mr. STROVER. Mr. Brougham's fundamental proposition on that is that he favors the issue of money to consumers on the basis of actual sales made, rather than to producers on the basis of expected sales. That is the way that he put it to me.

Mr. GOLDSBOROUGH. May I comment on that for just a minute?

Mr. STROVER. Yes.

Mr. GOLDSBOROUGH. You see, the idea is this, that if you give the people the benefit of this discount, directly to the consumer, in the first place the consumers get it, and in the second place the producers are bound to get the benefit of it as soon as the consumers use it. If you put it in the hands of the producers, and the consumers never get in their hands the means whereby they can purchase what the producers produce, you either have the goods piled up on the shelves of the producers or you have installment selling, which ultimately is going to result in bankruptcy, and that is the reason why, here in this bill, the view was taken that the benefit of this dividend should be given directly to the consumer, which would result in protecting the producer from having to dispose of his product by a process of installment selling.

Mr. STROVER. That raises the question of how to put new money into circulation—new money that is required for the country's business. I believe that if we put it into circulation by the purchase of securities and keep the average wholesale commodity price level stable so that it cannot decline, no matter how much production is increased, that will solve the difficulty just as well as putting the money into the hands of the consumers.

Mr. GOLDSBOROUGH. Another point in the philosophy of this bill which is concealed to a certain extent, and I think it is concealed in the minds of a great many who advocate this sort of legislation, is the fact that it would gradually do away with debt—that is, I mean overwhelming debt. Of course, it will always be necessary for people to borrow money, but under our monetary system, debts just simply get larger all the time.

I wish that you would comment on that.

Mr. STROVER. They are getting larger principally in times of depression. After all, we must not forget——

Mr. GOLDSBOROUGH. I do not think that you will find anybody to support you in that contention.

Mr. CLARK. They look larger. They are larger in proportion to the value of the equity.

Mr. REILLY. All of our debts were contracted largely before the depression began.

Mr. STROVER. Oh, yes; that may be true, and yet a lot of it arose out of that speculation, which could have been stopped, and while a good many debts were liquidated during the depression, the people incur new ones. During this last depression, we have spent a large amount of money to help people along. If we had not done that, the people would have gone deeper into debt than they have. But if you keep the average wholesale commodity price level stable, absolutely, and the production continually increases, the general tendency will be for people gradually to crawl out of debt. You can see that

around you. A lot of people have been indulging in buying too many automobiles that they did not need, but any number of people in Chicago that bought their homes on installments, gradually paid them off and got out of debt. The opposite occurred during the depression. They had to sell their homes or were foreclosed, and a lot of people have become discouraged. They say, "I am not going to try to buy another home in all my life in that way." It is a bad situation.

Mr. Goldsborough. Let me ask you a specific question. How can people—and I do not mean the individual who has more thrift than some other individual, but how can people ever hope to get out of debt when we create money by creating debt?

Mr. Strover. I fully agree with you, Congressman, that we ought to get away from that debt-creating system. It can be done along the lines that are embodied in the bill which I prepared in the spring of 1933 and which you read into the Congressional Record on May 29, 1933. If we had an irredeemable legal tender currency, requested so as to keep our domestic average wholesale commodity price stable at a proper level, and had behind each dollar of it interest-bearing securities in the hands of the Government, instead of letting the bankers load us with debt in the process of creating deposit currency, we would have a different situation.

Mr. Goldsborough. I was not criticizing your plan. I was asking how it could be done under our present system.

Mr. Strover. Why not change the present system? By the way, I find in running through this literature on the social credit proposition, that this is stated, that we can never pay our debts because we have to pay them back with interest. I think that that is an error, because the money that we borrow performs many transactions. If a man, for instance, borrows $1,000 and buys a truck, and with the truck he earns money, some people that I have known, have paid for that truck in a year, plus interest.

Mr. Goldsborough. But somebody else had to incur a debt while they were doing it.

Mr. Strover. Well, they wanted the money.

Mr. Goldsborough. I admit that you shift the debt under our present system from the shoulders of one to the shoulders of the other, but when you begin to extinguish the debt, you begin to extinguish the money.

Mr. Strover. Of course you do. That is why I say that we should increase reserve requirements and should put more money into circulation by buying up securities whenever our average wholesale commodity price declines below a level that Congress should definitely fix in advance. Between 1927 and 1933, I think, $20,000,000,000 of bank loans were taken out of circulation. If, every time when such a curtailment of bank credit had affected the average wholesale commodity price, money had come forth from the Treasury in sufficient amount to rectify the decline of that price, it would have offset the curtailment of bank credit, and, in my judgment, very quickly would have ended it, because the bankers would have seen that if they continued to call loans, the only effect of it would have been that Uncle Sam would buy more securities with new money, so that Uncle Sam would be getting the interest that the bankers had

been getting on their loans. If they knew that the price level never could come down, no matter how much they contracted their loans, their loans would not be curtailed.

Mr. GOLDSBOROUGH. We had a very interesting witness, a very distinguished man before our committee once, who was asked how to stop a depression when it had once gotten under way, and he said that it is very hard to push a string.

Mr. STROVER. You can stop every depression in the way I stated, if you will put my system into operation.

Mr. GOLDSBOROUGH. The fact of the matter is, of course, that while the Federal Reserve Board was asked several years before they did so, to begin the process of buying bonds, they did, during the spring of 1932, go quite largely into the bond-buying business for the express purpose of putting money into circulation and stopping deflation, but it did not do any good.

Mr. STROVER. They did it in 1930, too.

Mr. GOLDSBOROUGH. Some in 1930.

Mr. STROVER. About six hundred million dollars' worth, if I remember right. But it did not do any good, for these reasons, that, first, they had no authority to buy bonds with irredeemable legal tender money and were fettered by the gold standard; and secondly, they did not do it to a sufficient extent. In all of these matters of raising or lowering the price level, you have to keep this in mind, that you have to increase or decrease the circulation sufficiently to produce the desired effect.

Mr. WILLIAMS. If they had entered the marekt and bought these bonds, who would they have bought them from?

Mr. STROVER. Under my system, we would print the necessary money.

Mr. WILLIAMS. Who would they buy the bonds from?

Mr. STROVER. From the people who were hard up and willing to sell.

Mr. WILLIAMS. And they were bought principally from the banks.

Mr. STROVER. Supposing that they were; I do not think that it would make a great deal of difference.

Mr. WILLIAMS. No; because that money would finally get into the banks.

Mr. STROVER. Correct.

Mr. WILLIAMS. Then what? We already have over three billion excess reserve in the banks now.

Mr. STROVER. Yes.

Mr. WILLIAMS. Suppose that we add two billions more to that? What difference would that make?

Mr. STROVER. The banks would soon let loose and make loans if they knew that the process was going to be continued until the average wholesale commodity price were raised back to the 1926 level.

Mr. GOLDSBOROUGH. Of course, we understand that they would sooner or later do it. Of course they would.

Mr. STROVER. They would do it pretty soon, too. But at the present time what is happening?

Mr. GOLDSBOROUGH. I agree with you that if you start with the process of putting money into circulation at the right time, it will

stop a depression, but after it once gets to going, I doubt very much whether it would do much good.

Mr. WILLIAMS. Let me ask you why they do not let loose of some of it now?

Mr. STROVER. It is, maybe, because they are not satisfied with the policies of the Democratic Party. That may have something to do with it?

Mr. GOLDSBOROUGH. Would that be your reason?

Mr. STROVER. No. The Congressman asked me a question.

Mr. WILLIAMS. What do you think is the reason that we have these unreasonable reserves now? The idea in my mind is that if we put another billion in, it will not do any good; they will just have that much more. What are you going to do to break them loose from the money that they have got?

Mr. STROVER. Put more into circulation.

Mr. REILLY. How?

Mr. STROVER. Buy more securities.

Mr. GOLDSBOROUGH. How about putting it in as this bill suggests, putting it into the hands of the consumers at once, and start production?

Mr. STROVER. You can do that, too, and in order to do it, you do not have to set up all of the elaborate machinery provided for by this bill.

Mr. GOLDSBOROUGH. That may be.

Mr. STROVER. The Government can do it today.

Mr. CLARK. Are we not doing it today through a number of agencies, such as W. P. A. and Social Security?

Mr. STROVER. Yes. But the trouble with present methods is this, that while Uncle Sam is feeding out money with one hand, he is pulling in money and idle credit by handing out tax-free bonds, with the other hand. If Uncle Sam had taken another tack, and instead of selling tax-free bonds, had purchased securities with new irredeemable legal tender money, so that the securities in the market would have become less and less and the banks and other owners of idle money would not have had new tax-free bonds to invest in, you would see a different picture. Uncle Sam would get the securities, and the banks and the people would have the money with less and less to put it into, except real estate and business enterprise. These things then would become attractive and profitable, especially if businessmen had been positively assured that the 1926 price level would be reestablished.

The old line gold-standard economists even claim that if you put irredeemable legal tender currency into circulation, it would start a runaway inflation that nobody could stop. That clearly shows what they think of the efficacy of the remedy proposed by me for a raising of prices. Of course their talk about a runaway inflation that nobody can stop, is all nonsense. Irredeemable money inflations have not only been stopped, but reversed time and time again. We ourselves did it after the Civil War and after the World War. Great Britain did it after the Napoleonic Wars and after the World War. France and Italy have done it in recent years, and numerous other countries have done it also.

Moreover, the accumulations of idle funds in the banks can be made to move by other means. If you will not do it my way, you might tax those excessive reserves. The banks would then find some way in a hurry to put them to work.

Mr. WILLIAMS. On the other hand, we have people advocating greater reserves all of the time, and you advocate taxing them.

Mr. STROVER. I am not advocating that, but am advocating stabilization of our domestic average wholesale commodity price by the controlled issue of irredeemable legal tender money, to be issued through purchase of securities. By the way, if you force the banks to keep 100-percent reserves that would mean that the banks would have to transfer all of their securities to the Federal Reserve until they would have 100-percent reserve for all of their deposits. Then there would be cash for every dollar that would be put out by the banks by way of deposit currency.

Mr. WILLIAMS. You would not have any bank function at all, except as a sort of a storehouse, or warehouse, or bailee.

Mr. STROVER. Practically as bailee; and of course it would have to be compensated for it. But the loaning would be against the securities, and the securities would every time have to go to the Federal Reserve banks in order to get 100-percent reserve.

Mr. SPENCE. How could a bank supply the business of the country and maintain 100-percent reserves?

Mr. STROVER. Well, they might supply it in this way, that the people would have all of the time to put up security, and those that did not have the security could not borrow anything, except to the extent that the banks would loan their own capital.

Mr. SPENCE. The banks could then loan their own capital and surplus, and that is all.

Mr. STROVER. Yes. On everything beyond that, they would have to put up securities that would have to go to the Federal Reserve banks in order to get the necessary Federal Reserve credit.

Mr. GOLDSBOROUGH. If the Government exercised its normal function of issuing its own money, you would soon get all of the money you needed in circulation.

Mr. STROVER. Yes. But I advocate having that done by the purchase of securities.

Mr. CLARK. The loans would have to be made on eligible securities.

Mr. GOLDSBOROUGH. Now, have you completed your statement? We have other witnesses.

Mr. STROVER. I am practically through. I might say two or three things more very briefly, and one of them is this, that a good many people are afraid of an increase in prices, because they figure that it would hurt the working man.

Mr. GOLDSBOROUGH. On that question of raising retail prices, if you doubled the supply of money in the hands of the ultimate consumer, and if at the same time you doubled the quantity of wanted goods and services, you are not going to raise your retail price level anyhow, except at the first spurt. Is that correct?

Mr. STROVER. Yes. What I was going to say about it is this, that too many people overlook this fact, that when prices rise, employment will increase, and as employment increases, a lot of unem-

ployed people will go to work. In most families at the present time, out of five or six, may be one is employed and one or two are not. The moment those unemployed go to work, that family will be better off even if they have to pay higher prices, than they are with those members remaining unemployed. Furthermore, as prices go up, wages will soon go up. All you have to do is to think back and ask yourselves "Were our working people better off when we had higher prices from 1926 to 1929, or were they better off in 1931, 1932, and 1933 when we had low prices?" There is no good reason whatever for delaying a raising of prices on that account.

The farmers, too, will be better off. It is interesting to observe that farm product prices always have declined faster than general prices when a deflation occurred, and always have risen faster than general prices when an inflation came along.

Altogether, if you want to get out of this depression, by all means you ought to put money enough into circulation to raise prices back to the 1926 level, and do it quickly. It is about the only way that I can see to get out of it without undue delay.

Mr. WILLIAMS. I see an expression in his bill which perhaps not everybody here understands, and that is "wanted goods and services." By what standard is that measured? What does that mean?

Mr. STROVER. Well, goods and services that the people want. At the present time a lot of people would like better houses and more shoes, and better clothing and more things to eat, a greater variety to eat.

Mr. WILLIAMS. Are you going to take as a standard the wants for goods and services of the man who lives as a millionaire, or will you take the man with an income of $1,500, or $1,000, or less?

Mr. STROVER. I did not draft the bill, but I would say that it refers to all the things that all the people want. In other words, it takes the millionaires into consideration, as well as the man who has only a small income.

Mr. WILLIAMS. Taking the man who has no income at all, his wants perhaps would be very limited, compared to some man——

Mr. STROVER (interposing). He would like to have more, and the expression refers, in my judgment, to that which could be produced to satisfy his wants, but which at the present time is not produced because there is not enough purchasing power in the hands of the people.

Mr. WILLIAMS. I believe that it has been stated many times that our productive capacity under the present set-up could not supply the wants and demands of the people of the country if they had the purchasing power.

Mr. STROVER. I think that that is correct. I have no sympathy with the 30-hour week, for instance. I believe that we could all keep working 40 hours at least a week, and probably 44 hours for a great many years.

Mr. GOLDSBOROUGH. Do you know any Congressman that limits his work to 40 hours a week?

Mr. STROVER. I do not; no.

Mr. GOLDSBOROUGH. I have never heard of one.

Mr. STROVER. I presume that there are not very many. They can not attend to their duties if they do not work more hours than that.

Mr. GOLDSBOROUGH. This committee has profited very much by your statement, and we are all very grateful for it, and sincerely hope that we may have the pleasure of having you with us many times in the future.

Mr. STROVER. Thank you.

Mr. GOLDSBOROUGH. Now, Mr. Shibley, we would be pleased to hear you.

STATEMENT OF GEORGE SHIBLEY, DIRECTOR OF RESEARCH INSTITUTE, WASHINGTON, D. C.

Mr. SHIBLEY. Mr. Chairman and gentlemen of the committee, I am George Shibley, director of the Research Institute, of Washington, D. C. I finance the Research Institute, for the general welfare. I am also a member of the United States Supreme Court bar, and national president of the Voters League of U. S. A.

Mr. GOLDSBOROUGH. Mr. Shibley, in 1913 did you serve as counsel to the Senate Banking and Currency Committee in its framing of the Federal Reserve bill?

Mr. SHIBLEY. Yes; Chairman Owen, as chairman, employed me and I was paid by the committee. I add in a note something of my experience and thereby qualify as an expert in the science of money and prices.[1]

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[1] Back in 1896 I was author of a 740-page book, The Money Question, with the subtitle Stable Money. The publisher was the Stable Money Publishing Co., and I was the first economist to plan for stable money, the Government to attain it by providing for the regulation of the quantity of the people's medium of exchange. That treatise received the highest testimonials from the liberals in England, France, and the United States.

In 1899 I founded in New York City the Bureau of Economic Research, in association with Prof. John R. Commons and Prof. Edward W. Bemis. I was the head of the department of money and banking. Willis J. Abbot, the liberal journalist, was our publicity expert. The aim was to expose the evils from the holders of special privileges.

The money question was the dominant issue, and I paid experts to set up for our republic an all-commodity index of the price level at wholesale, and measure the height of the price level for 25 years, then to each week measure the price level and supply to some of the Monday morning dailies the all-commodity index.

The measurement of this country's price level was preliminary to issuing a book on the coming money plank in 1900 by the three liberal parties, the Democratic, Silver Republican, and the People's Party. The book title was The Financial Plank of the Allied Reform Parties, the Humboldt Library, New York.

The outcome was that I secured from both the People's Party and the Democratic Party a declaration for the stabilization of the price level, stable money.

Thirteen years later, in the opening months of the Wilson liberal government, I suggested to Senator Robert L. Owen, chairman of the Senate Banking and Currency Committee, that he add to his bill for the Federal Reserve System that the aim of the officials in regulating the height of the rediscount rate be "to maintain a stable price level." Senator Owen accepted the idea, and it was approved by President Wilson and his advisers, and the plan became part of the administration bill that was introduced simultaneously in both Houses, the Owen-Glass bill.

But as yet the time had not come for the proposed advance to a stable price level. The House, under the chairmanship of Hon. Carter Glass, removed the clause for stable money, and Senator Owen was not able to restore it. I was employed by the Senate committee as an expert on the money question.

Nine years later, 1922, the issue of stabilization was again brought up in Congress. Congressman Goldsborough, of Maryland, of the House Banking and Currency Committee, had become convinced of the practical nature of stabilization by the method advocated by Prof. Irving Fisher, of Yale University, the frequent change in the quantity of gold in the standard dollar. Mr. Goldsborough's bill, H. R. 11788, came up for hearings and I put in a statement in behalf of the regulation of the daily flow of currency and bank credit to maintain stability in the all-commodity index. Two years later in Mr. Goldsborough's bill that criterion was added in connection with a possible shift in the quantity of gold in the dollar at long intervals.

Two years later, in 1926, I took to Congressman James G. Strong, of the House Banking and Currency Committee, and of the party in power, my bill for stabilization of the price level. He introduced it and I made the opening and closing statements.

Again, in 1932, at the hearings on the Goldsborough bill for restoration of the height of the price level to normal and then its stabilization, and which passed the House by a vote of 289 to 60, I put in a statement for it, with charts on the main points.

Such in brief is my record of advocacy of the scientific regulation of the height of the price level at wholesale, the purchasing power of money.

I am here in support of the basic principle in the bill that is before you gentlemen. The principle in this bill is one thing, but the arguments that have been made in support of this Goldsborough bill have, in nearly every case, been overdrawn, in my judgment because these advocates of social credit have been specializing on it and have not seen the other elements in the great depression. I have been studying the entire field of the elements that have caused the great depression, and my researches show that the vast number of the unemployed today is due to a considerable number of causes, among which are the following:

First. The deflation in the quantity of the people's medium of exchange. In January 1936 the deflation in check money outside of New York City was still 34 percent (debits to individual account); and the price level at wholesale is still 25 percent below normal. The all-commodity index of the price level of the Department of Labor is about 80, and to be normal should be 100, the average for 1926. In July 1929 it was 98.

In my judgment, this vast deflation in the working capital in production and consumption is a main cause in the continued vast unemployment.

Second. Because of today's relatively high prices for building materials, plus relatively high prices for labor in the building trades, the people in this country have for years been forced to quit building residences, with a few exceptions. This explains in part why private enterprise is still unable to absorb the unemployed in the upturn in the business cycle.

Third. In nearly all of the channels of industry the businessmen's prices are relatively too high, in contrast with the prices being received by the agriculturists. (Relative indexes of the U. S. Department of Agriculture.) These relatively high prices of the business interests are caused by a virtual monopoly in each industry, by the use of the trade association.

Fourth. Improved methods of production and distribution are largely causing unemployment.

These four fields illustrate in part why today, in the upturn of the business cycle, there is still one-fourth of our population being supported at public expense, because private enterprise is not giving them work. There is needed a whole series of reforms, and the reforms are mainly to be the ending of special privilege.

THE REMEDY

The real remedy for the vast number of the unemployed is, in my judgment, this year's nonpartisan politics; the systematic questioning of the nominees for the National House and Senate by organized labor for real industrial democracy; an improved form of N. R. A., to be backed by setting up a mechanism for political democracy.

Also, the National League for Social Justice is questioning the nominees for the National House and Senate for a law by Congress to provide for the issuance of enough of the people's medium of exchange to restore to normal the height of the price level at wholesale, and then that the restored price level shall be stabilized—the coming of stable money.

Reports to the voters are being issued by these organizations, along with a plan to place in the field independent candidates wherever necessary. The reports to the voters are to be printed and distributed to the voters, and these voters at the polls will protect themselves—a peaceful revolution.

To aid these nonpartisan organizations in the ensuing campaign is to be the duty of the Voters League of U. S. A., of which I am national president. We are about to issue a campaign textbook, explaining the nonpartisan liberal movement.

Organized labor by its questioning of national candidates in 1930, 1932, and 1934 won an advance each time, and again is to win an advance to include monetary reform. And in 1937 the members in both houses of Congress will be subject to instructions by the legislatures and by voters' petitions.

This nonpartisan system is in combination with party government.

CONSUMERS' DIVIDENDS

I now describe the issue that is before this committee, the proposal in H. R. 9216 for the issuance of consumers' dividends. It is not likely to be included in the questions to national nominees.

I quote from an English writer on social credit, Col. Arthur E. Powell, who has written two volumes in elucidation of the Douglas theory of the need for governmental action to supply the social credit, to create enough purchasing power by the masses to distribute the goods and services of a full-time use of the producing capacity. Colonel Powell, in his volume, The Flow Theory of Economics, says in the opening paragraph:

> The flow theory of economics affirms, as a self-evident proposition, that if all goods and services produced are to be consumed or sold as fast as they are produced, the rate of flow of purchasing power to consumers must be at least equal to the rate of flow of the goods and services; and, also, that consumers must exercise their purchasing power to the full.

That is self-evident.

Colonel Powell in his closing chapter, The Solution, says that the Government should provide for the issuance to the public of just enough paper currency or other form of credit, as tickets, to buy as much output each day as the Nation can produce; and that the wholesale prices should be equitably regulated, should be fixed as to the main articles, and thus prevent an inflation. Prices of the more important articles in England were fixed during the World War and should again be fixed, he says.

I wish to put into the record that there is an 800-page book telling of the fine results of Government control of the main wholesale prices in this country during the World War. The book title is Government Control of Prices. It is on sale by the Superintendent of Documents, at 25 cents.

The Province of Alberta, Canada, has enacted that its principal wholesale prices shall be fixed. This was done at the request of the small business interests, to prevent cutthroat competition. Also, Alberta is issuing a million dollars of social credit in its road building (government currency without interest), to be added to by 2 million dollars borrowed. At the Easter adjournment of the

Alberta Parliament the premier said that in 2 months there would be no more general unemployment in the Province of Alberta.

The importance of a governmental policy that shall issue to its people an adequate quantity of the medium of exchange is said by Colonel Powell in his book to be that it will lift from the people's backs their heaviest burden. It will result, he says, in a volume of contentment and happiness probably greater than any other single reform could at this time achieve.

DEVELOPMENT IN MONETARY MECHANISMS

Because of vast developments in monetary mechanisms, plus the coming restoration of the rule of the voters in this country, the time is close at hand when our National Government is to take from the banks the issuance of the social credit. Social credit is the credit supplied by society. For example, it includes part of the bank credit that is issued wherever the reserve requirement is less than 100 percent. That is, the bank agrees to a loan and issues to the customer a credit slip, and also hands to the customer a checkbook. The customer writes checks and hands them about to people who will accept them in exchange for goods and services. That is social credit, and the bank reserve is only a fraction of the loan. The private banker thus receives interest on social credit. In contrast to this social credit is the saved-up wealth in the banks, namely, the cash deposits and the deposit of checks. The banks should continue to loan this saved-up wealth, with a 100-percent reserve.

As I said a moment ago, the time is at hand because of developments when our National Government is to take from the private banks the privilege of issuing social credit and receiving the interest. The Government will issue all of the social credit for the general welfare, and thus give to the citizens, the sovereign power, the saving of interest. This is to come about because of the development of mechanisms to prevent inflation, and prevent deflation. I believe that thus far I am the only one who is thus explaining why the time is here for the change; and in November is coming a peaceful revolution, as I have described.

Now, as to the details of the mighty developments in monetary mechanisms.

First. There came the invention of the all-commodity index. It measures the height of the average of commodity prices at wholesale.

Second. In 1912 in our United States there came a peaceful revolution at the polls, the election of the Wilson liberal government. It set to work to repeal the special privileges which the former ruling few had taken to themselves. President Wilson went before the Members of the two Houses of Congress in joint session and advised the ending of the bankers' trust in Wall Street and the ending of the monopoly protective tariff. This was as a starter. Committees in the two Houses took up the issues and an outcome was the law setting up the Federal Reserve Banking System and a revision of the protective tariff. That new law as to banking set up an elastic supply of bank credit, under Government regulation and the use of Government currency. There is yet to be completed an instruction

for a stable price level, the stable commodity standard of prices, the stable commodity dollar.

In connection with the coming stability in the height of the price level at wholesale, our National Government is to be instructed by the voters next November, as I have explained, to stop giving to the banks the special privilege of issuing social credit, the issuance to be by the National Government, and the issuance to be where it will be most useful. That will be another vast improvement. It is to be in connection with the stable commodity standard.

Previous to the setting up of the elastic volume of bank credit by the Wilson liberal government in 1913–14, there had existed the gold standard of prices, and in other countries the silver standard of prices. And each of those systems was coupled with the issuance of some of the social credit by the banks, because had the Government been issuing non-interest-bearing social credit there doubtless would have taken place an overissuance. But now with the measurement each week of the height of the average of commodity prices at wholesale, and an instruction to the administration to stabilize at 100, also the return to power of the voters, the time is doubtless close at hand for consumers dividends, to provide for an adequate distribution of commodities and services, to be in connection with the forthcoming Equal-Rights Government—Liberal Government.

Such I conceive to be the main issues—a complicated situation. The liberal program as a whole I am about to publish, to include a description of this year's nonpartisan campaign.

Are there any questions that you gentlemen have? If not, I thank you.

Mr. GOLDSBOROUGH. Thank you very much, Mr. Shibley. We appreciate very much your coming before this committee, and I have recognized for 15 years the great contributions that you have been making unobtrusively to this general subject, and, personally, as a citizen, I am very grateful to you.

Mr. SHIBLEY. Thank you.

(The bill submitted with the statement of the foregoing witness is as follows:)

A BILL To provide for an adequate distribution in private enterprise, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

DECLARATION OF POLICY

SECTION 1. That the policy of the United States is to restore equal rights in private enterprise, the restoration of civil liberty. To that end this Act provides for a planning Commission and for an adequate distribution of goods and services in private enterprise, and for other purposes.

TO END GENERAL UNEMPLOYMENT

SEC. 2. In this Republic on the mainland, whenever there shall exist a general unemployment of 1 percent of the adult population the Planning Commission of the United States hereinafter provided for shall issue a statement to the President of the United States, recommending the steps that should be taken to restore full-time employment in general.

CONSUMERS DIVIDENDS

SEC. 3. (a) To provide for an increase in the people's purchasing power from time to time, the Federal Reserve Board shall direct the distribution per capita of consumers dividends, to be United States Treasury notes, noninterest bearing and receivable for all debts and dues, on an equal-rights basis, to the citizens on the mainland, including children.

(b) (The needed mechanisms are to be herein described.)

NO INFLATION

SEC. 4. (a) To prevent an excess of currency in circulation and in the banks as deposits, the Federal Reserve Board shall from time to time direct the resale of securities in the open market—securities that shall have been purchased by a Currency Bureau in the Department of the Treasury, by the payment of noninterest bearing treasury notes, the purchasing to be under the direction of the Federal Reserve Board.

(b) (The needed mechanisms are to be herein described.)

NOTE.—There is urgent need that the National Government shall own a mechanism whereby it shall buy and sell bankable securities to place in circulation non-interest-bearing currency, and retire it, so as to be sure that the public shall receive just enough currency and credit to result in maximum production and distribution. This is stressed in these hearings.

STABLE MONEY

SEC. 5. (a) Also the policy of the United States is to restore to normal height the all-commodity index of the United States Department of Labor—the 1926 price level; and to stabilize that all-commodity index.

(b) Should that all-commodity index be found at any time to be two points above or below 100, then each week's announcement of the index shall be accompanied by a statement that the duty of the Federal Reserve Board shall be to rectify the abnormal situation.

THE PLANNING COMMISSION

SEC. 6. (a) Hereby is established the Planning Commission of the United States, to study and report from time to time on the social system of our Republic and the needed next steps in its development.

(b) The membership in the Commission shall consist of seven advocates of equal rights in private enterprise, liberals, of broad experience and specializing in seven different fields, to cooperate in describing the social system and the needed next steps.

(c) The salary of the commissioners shall be $——— a year, payable monthly. And each commissioner shall by the Commission be supplied with an assistant expert at the same salary as to the commissioners, and be aided by stenographers and statisticians. There shall be employed a general secretary as the executive officer.

(d) Hereby is appropriated for the fiscal year ending June 30, 1937, $———.

SHORT TITLE

SEC. 7. The short title of this law shall be "The Consumers' Dividend Act of 1936."

AFFIRMATIVE ARGUMENT

In contrast with the existing Goldsborough bill, H. R. 9216, our sections 2 and 3 are, we believe, a better guide for the issuance of the consumers' dividends.

And because of our shift of the gauge to general unemployment our bill omits 22 pages that are in the Goldsborough bill.

But the Goldsborough bill conforms to the ideal of Major Douglas, of Scotland, who, I believe, is mistaken in the gauge he has set up. I have explained it in my statement. I submit the issue to my fellow economists and statesmen. Certainly the line of my statements will appeal most effectively to the voters, the sovereign power.

Mr. GOLDSBOROUGH. Now, Mr. Hampden, we will be glad to hear you.

STATEMENT OF PAUL HAMPDEN, ASSOCIATE EDITOR, NEW DEMOCRACY MAGAZINE

Mr. HAMPDEN. My name is Paul Hampden, and I am associate editor of the New Democracy Magazine, a monthly journal on monetary reform.

As the last witness in behalf of this bill, I would like to summarize, under two main points, the situation which it covers; point no. 1 dealing with the essential condition which the bill is designed to rectify, and point no. 2 how this bill will meet it.

The condition to be met may be defined as a lack of balance between the costs of production, on the one hand, and the incomes of the people on the other. In explaining this it will be helpful to outline, very briefly, how this unbalance comes about. In its simplest form it is due to the fact that normally a certain portion of the national income is always being applied to finance new production, through the process of saving and investment, before being used to buy the original goods which it represented. Thus two or more units of cost may be set up for one unit of money. This unit of money is ultimately owed to the banking system. But it cannot discharge both units of cost before it is repaid to the banking system for the simple reason that every time it completes one full circuit from consumer to producer to consumer again a new cost is created to replace the old one which is discharged. You can keep on adding one and subtracting one, adding one and subtracting one, indefinitely; when you get through you still have two units of cost and only one unit of money—and only one of these units of cost can be discharged when that money is finally paid to some producer who repays it to a bank, where it is canceled.

In short, every time a unit of money is interrupted in its circuit from producer to consumer to producer, to be invested in further production—that is to say, every time a unit of money travels through the circuit producer-investor-producer-consumer-producer—a new unit of money should be created and placed in circulation entirely free of debt.

Actually more than one unit of new money needs to be created, but the reasons for this require a somewhat complex and detailed analysis of the intricacies of the situation. Title 1 of H. R. 9216 provides adequate measures to cover the entire situation. We may note, however, that this process of saving and investment, which causes the "double circuit" of money, as it is called, is not to be taken as confined only to personal savings and investment. It includes all reinvestment by business of reserves and undivided profits as well.

Thus a relationship of price flow to income flow is set up which is unbalanced, which is non-self-liquidating. And our economic system as a whole can only be kept going if credit is constantly increasing, that is to say, if book entries are being created by the banks faster than they are being wiped out, so that there is a net increase of money subject to check although there may be no increase in currency.

Hitherto this has happened in three connections: First, if so-called capital goods, new factories, houses, railroads, and other long term durable goods are being produced in expanded volume; second, if

credits are being created in aid of exports; and third, if the Government debt is increasing.

But none of these three methods of providing for a continuous expansion of credit can last indefinitely.

Take the first connection: No matter how much new credit is being created for capital goods expansion, thus swelling the national income, for the moment, a fairly constant percentage of this income is saved by its recipients and reinvested. Thus, at no matter what level of economic activity, costs are created at a faster rate than incomes, and it is only a question of time before the total price of finished goods at market is greater than the total income of the public.

This is true regardless of the volume of unemployment. Even if full employment were achieved the system would still be nonself-liquidating. It would be impossible for us to sell all we produced, at the prices it cost to produce, within our own borders.

The second way in which the system has been saved in the past has been when credits were granted to foreigners to take goods out of the country. Thus our own people, throughout the nineteen twenties for example, were kept employed turning out some goods which were not sold in this country. These goods were sent out of the country and their costs covered by a creation of money which no one in this country was bound to repay. But the money stayed right here to aid in the payment for the goods which were kept at home.

But there is a limit to this too. Every industrial nation has the same problem on its hands and wants to keep out foreign goods while it sells as much as possible of its own produce abroad. This is known as a favorable balance of trade. Sending more real wealth out of the country than you bring back. But financially speaking, it is impossible for the whole world to sell more than it buys, so that outlet is blocked.

Finally, there is the third way: The creation of money to Government account by the banks and the Government spending it. This is nowadays considered only proper as a last resort, when all the other ways have failed.

Now let us analyze the effect of this last way. The immediate result is an increase in buying power, in money in circulation, without a corresponding increase in private obligations which must be recovered in prices. Therefore, the old obligations that could not be recovered now can be. Business picks up a little.

But the trouble with this plan is the fact that sooner or later the money must be repaid to the banks which created it, or, to put it baldly, this money must simply be pulled back out of the system and canceled. This can only be done by taxes. And everybody knows this. Particularly those who pay the taxes. Everyone can see it coming. And so there is a great deal of fear and hesitation and caution about borrowing for new business, even though the banks are willing to lend, when the government debt is going up. It is easy to see what is happening in this case. It is not so easy to see, but equally true, that without this money there is not enough money to meet all the costs that have been incurred.

So this money should stay permanently in circulation.

Right here is the clue to the way out of the difficulty. If the three billion a year relief that has been going out has made the difference it has, imagine what would happen if we put out ten times that much next year. Thirty billions of new purchasing power in the hands of the people, instead of three. Everybody would be employed to make the goods which would be demanded—there would be jobs for the unemployed—trade would revive, and profits would be made.

But we would all be worried about that tremendous $50,000,000,000 debt which we soon have to begin paying on. Business would hold back for that reason. No one would want to make long-term commitments in the face of a tax like that.

And then let us suppose the Government said "forget it." We are never going to pay this money back or even pay interest on it. We have borrowed it from no individual. No one has given up the use of that money. The banks simply marked it up in their books and it was no strain on them either because they had excess reserves capable of standing 30 billion more in deposits. So we won't account it as debt. And we won't tax you for it.

So we will just forget it. Take it. It's yours. Nobody has lost anything and you are all reemployed and running at a profit.

That, gentlemen, in very bare outline, of course, and stripped of all nonessentials, is what this bill would do. And further, it is designed to compensate continually in the future for that double circuit of money I mentioned in the beginning, so that the present wholly artificially caused and unnecessary business cycle will disappear.

This bill is designed to do two things, to overcome the shortage of money which is otherwise inevitable under the capitalistic system, and to enable the American people to produce and consume up to any desired level of their productive capacity.

STATEMENT BY THE CHAIRMAN

Mr. GOLDSBOROUGH. Thank you very much, Mr. Hampden. I think that your statement will help the committee a great deal, and we believe that in your line of endeavor you will become as distinguished as your father, Mr. Walter Hampden, has in his.

Now, ladies and gentlemen, I presume that these hearings, for the present at least, are closed. Those who have testified will have their testimony sent to them for correction. You are permitted to correct any errors in grammar or the form of any expression, but you are not supposed to change the meaning of the testimony. We are asking that the testimony be returned as quickly as possible, so that it may be published in pamphlet form.

I have just been handed a statement by the Women's New Economics Committee, of 71 East Seventy-first Street, New York, and, without objection, that will go in the record at this point.

(The statement referred to is as follows:)

WOMEN'S NEW ECONOMICS COMMITTEE,
New York, N. Y., April 22, 1936.

MEMBERS OF THE BANKING AND CURRENCY COMMITTEE,
House of Representatives, Washington, D. C.

GENTLEMEN: The Women's New Economics Committee of New York is deeply interested in the Hon. T. Alan Goldsborough's bill, H. R. 9216.

At this time, when the Nation is struggling to make our present financial set-up fit new economic conditions, it would seem that the most important and the first thing to do would be to return to Congress its constitutional right to print and issue money and regulate its value.

Credit is money. Over 90 percent of the money used in business transactions today is credit money, and, as its control has always rested in the hands of bankers, it follows that the major part of our money is now controlled by private institutions.

This constitutional right has gradually slipped from Congress. As money was instituted for the convenience of the people it should be controlled by them through their representatives in Government, according to the original intention in our economic democracy.

We have studied the monetary bills presented during this administration and the proposals in all of them are debt-creating. This piling up of debts cannot be a final solution. It is evident that there is some fundamental flaw in an economic system which permits only of solutions through debt-creation when there is adequate backing of real wealth upon which to draw.

We believe that this present depression was not caused by the manipulation of stocks and bonds, though this undoubtedly postponed the depression by some months, but was inevitable because of the inherent flaw in the system itself.

Money should be a true reflection of the real wealth of the people of the country. It should not be used in an attempt by private groups to control that wealth. We believe there should be a full distribution of wanted goods through adequate and available money based on this real wealth, without creating debt.

What we need is additional noninflationary money which would make it unnecessary to increase taxes, to give relief or doles, so degrading to the American people, or to enact legislation which would redistribute our already insufficient supply of money.

To illustrate: In 1929, figures show that the value of goods and services actually consumed in this country amounted, at retail prices, to about 93 billion dollars and that the national income of that year fell short of covering purchases actually made by about 17 billion dollars. We can hardly look back upon that year with satisfaction when we know the people went into personal debt for 17 billions, and that with our vast available productive capacity, 57 percent of our families were living on incomes of less than $2,000 a year.

We have given serious thought to the question of inflation in issuing certificates of national credit and have arrived at the definite conclusion that as these certificates would be issued only to the value of goods and services consumed, there could be little danger of rise in prices; in fact, no danger, under the strict mandates governing the commission as provided for in this bill.

This new money, which would fill the gap between productive capacity and available purchasing power, would guarantee to the producer a market for all wanted goods. The money would flow from the consumer to the producer rather than as it now does from the producer to the consumer. It would increase the volume of the banking business with less risk to it and this would minimize the danger of cycles of inflation and deflation.

For all the above reasons we approve the general content of the bill.

Yours very truly,

MRS. BROWNELL GRANT, *Chairman.*

Mr. GOLDSBOROUGH. The committee will now adjourn.

(Thereupon, at 4:40 p. m., the committee adjourned.)

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